

**BỘ KẾ HOẠCH VÀ ĐẦU TƯ
CỤC PHÁT TRIỂN DOANH NGHIỆP
MINISTRY OF PLANNING AND INVESTMENT
AGENCY FOR ENTERPRISE DEVELOPMENT**

SÁCH TRẮNG

WHITE PAPER

**DOANH NGHIỆP NHỎ VÀ VỪA
VIỆT NAM**

**ON SMALL AND MEDIUM SIZED ENTERPRISES
IN VIET NAM**

2011

HÀ NỘI - 2012

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ABBREVIATION

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
APBSD	ASEAN Policy Blueprint For SME Development
APEC	Asia-Pacific Economy Cooperation
ASEAN	Association of South East Asia Nations
AusAID	Australian Agency for International Development
BDS	Business development services
BOT	Build, Operate, Transfer
CB	Commercial bank
CPN	Cross-border Production Network
DANIDA	Danish International Development Agency
DFID	Department for International Development (UK)
EPZ	Export processing zone
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GMS	Greater Mekong Sub-region
GPN	Global production network
GTZ	German Agency for Technical Cooperation
ICT	Information and communication technology
IFC	International Finance Corporation
IT	Information technology
IZ	Industrial zone
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
PC	People's Committee
SME	Small and medium-size enterprise
SMEMM	APEC SME Ministerial Meeting
SMEWG	SME Working Group
SOE	State-owned enterprise
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
VAT	Value added tax
WB	World Bank

GIỚI THIỆU



1. Mặc dù là năm thứ ba liên tiếp Việt Nam chịu ảnh hưởng từ cuộc khủng hoảng tài chính và suy giảm kinh tế thế giới, song, kết thúc năm 2010, Việt Nam vẫn đạt tăng trưởng GDP khoảng 6,78%, cao hơn nhiều mức tăng 5,32% của năm 2009 và vượt kế hoạch của Quốc hội đề ra ở mức 6,5%. Những kết quả này là nhờ một phần không nhỏ của gần hàng trăm ngàn DNN&V và hàng triệu doanh nghiệp siêu nhỏ trên toàn quốc. Trong bối cảnh khó khăn của nền kinh tế trong nước và toàn cầu, các DNN&V đã thể hiện sức bật mạnh mẽ trong quá trình khởi nghiệp, đổi mới sáng tạo, phát triển, và tăng trưởng.

2. Năm 2010 cũng là một dấu mốc quan trọng vì đây là thời điểm cả nước bắt đầu chuẩn bị cho việc thực hiện Chiến lược phát triển kinh tế - xã hội 2011 - 2020. Trong giai đoạn đến năm 2020, tốc độ tăng trưởng GDP bình quân 7 - 8%/năm; Việt Nam cơ bản trở thành một nước công nghiệp với GDP bình quân đầu người theo giá thực tế đạt khoảng 3.000 USD; Giá trị sản phẩm công nghệ cao và sản phẩm ứng dụng công nghệ cao đạt khoảng 45% trong tổng GDP; Giá trị sản phẩm công nghiệp chế tạo chiếm khoảng 40% trong tổng giá trị sản xuất công nghiệp; Yếu tố năng suất tổng hợp đóng góp vào tăng trưởng ít nhất đạt 35%; chỉ số phát triển con người (HDI) đạt nhóm trung bình cao của thế giới; tuổi thọ bình quân đạt 75 tuổi; lao động qua đào tạo đạt trên 70%; tỉ lệ hộ nghèo giảm bình quân 2%/năm.

3. Kế hoạch Phát triển Kinh tế Xã hội giai đoạn 2011 - 2015 là nội dung rất quan trọng trong việc thực hiện Chiến lược. Trong giai đoạn này, mục tiêu đề ra là tốc độ tăng trưởng kinh tế bình quân 5 năm: 7 - 7,5%. Năm 2015, GDP bình quân đầu người khoảng 2.000 USD; kim ngạch xuất khẩu tăng bình quân 12%/năm, đến năm 2020 cân bằng được xuất nhập khẩu.

4. Là một trong những động lực vô cùng quan trọng của nền kinh tế, các DNN&V sẽ đóng vai trò quan trọng trong việc đạt được các mục tiêu nêu trên. Việc đánh giá kỹ sự phát triển của khu vực DNN&V trong thời gian qua, xác định những điểm mạnh, điểm yếu, từ đó tìm hiểu những hoạt động mà Chính phủ có thể tiến hành để giúp doanh nghiệp đạt được mục tiêu là rất cần thiết. Chính phủ cũng cần thực hiện các phương thức hợp tác cụ thể với khu vực DNN&V để giúp hiện thực hóa tiềm năng to lớn của khu vực này nhằm tiếp tục đổi mới, sáng tạo và cạnh tranh trên các thị trường trong nước và quốc tế.

5. Do vậy, Bộ Kế hoạch và Đầu tư, Cục Phát triển doanh nghiệp, tiếp tục xây dựng cuốn Sách trắng DNN&V Việt Nam phiên bản năm 2011 với mục đích:

- Dựa trên những số liệu thống kê chính thức cập nhật nhất để đánh giá những thành tựu DNN&V đã đạt được trong những năm gần đây.

- Tìm hiểu rõ hơn về cơ hội và thách thức DNN&V Việt Nam đang đối mặt, từ đó đề ra kế hoạch hành động ưu tiên để giải quyết các vấn đề này.
- Xây dựng tầm nhìn và định hướng phát triển DN trong tương lai, bao gồm thúc đẩy liên kết giữa các DNN&V với các DN lớn.
- Nâng cao nhận thức của xã hội về đóng góp của khu vực DNN&V Việt Nam trong phát triển kinh tế và xóa đói giảm nghèo.

6. Sách trắng DNN&V Việt Nam 2011 được Cục Phát triển doanh nghiệp phối hợp với các chuyên gia tư vấn của Ngân hàng Phát triển Châu Á (ADB) và sử dụng các số liệu của Tổng cục Thống kê để xây dựng. Cục Phát triển doanh nghiệp đã nghiên cứu kinh nghiệm khu vực và quốc tế để xem xét có thể áp dụng những bài học kinh nghiệm cho Việt Nam, và tìm hiểu tác động của môi trường toàn cầu đang biến động đối với phát triển doanh nghiệp.

7. Sách trắng DNN&V Việt Nam năm 2011 bao gồm 4 phần chính như sau:

- Phần I: Môi trường tổng thể phát triển DNN&V;
- Phần II: Thực trạng DNN&V Việt Nam;
- Phần III: Hỗ trợ phát triển DNN&V;
- Phần IV: Triển vọng khu vực DNN&V.

8. Cục Phát triển doanh nghiệp xin trân trọng cảm ơn sự chỉ đạo và định hướng của Lãnh đạo Bộ Kế hoạch và Đầu tư, các đóng góp và gợi ý của các đồng nghiệp và sự hỗ trợ của các chuyên gia tư vấn ADB. Các ý kiến góp ý xin được gửi về:

Bộ Kế hoạch và Đầu tư

Cục Phát triển doanh nghiệp

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INTRODUCTION

1. Viet Nam reached GDP growth rate of 6.78% in 2010, far higher than the rate of 5.32% in 2009 and exceeded the set target of the National Assembly of 6.5% despite 3 successive years being affected by the financial crisis and global economic downturn. This encouraging result comes from great efforts of hundreds of thousands of Small and Medium-sized Enterprises (SME) and millions of micro enterprises nationwide. Facing enormous challenges from the global and domestic economic situation, SME have shown their tremendous capacity in business establishment, innovation, development and growth.

2. The year of 2010 also marked a milestone as the whole society experienced preparation process to implement the National Socio-Economic Development Strategy during 2011 - 2020. The Strategy has set out targets for the next period as follow: Viet Nam would reach GDP growth rate per annum of 7-8%; Viet Nam would basically become a industrial country with real GDP per capital of about 3,000 USD; Values of hi-tech products and technology-intensive products would contribute 45% of total GDP; Value of manufactured products would account for 40% of total industrial production turnover; Total factor productivity would account for 35% of growth; Human Development Index (HDI) of Viet Nam would be at above the average level; life expectancy would be 75 years; trained employees would account for 70% of total employees; the number of poor households would be reduced by 2% per annum.

3. The Socio-Economic Development Plan (SEDP) is an essential part to implement the Strategy. In this period, the set target for economic growth rate for 5 - year period is 7-7.5%. In 2015, GDP per capital is estimated at 2,000 USD, export turnover to increase by 12% per annum and would be balanced to import turnover on 2020.

4. Being one of the most important drivers of the economy, SME will be a critical factor to realize these targets. It is also essential to evaluate the development of SME over the fast years, to identify their strengths, weaknesses as well as to identify what actions the Government can take to help businesses achieve their objectives. The Government needs to work with businesses to help realize the tremendous potential of Vietnamese enterprises to continue innovating, creating, and competing nationally and in international markets.

5. Thus, the Agency for Enterprise Development has prepared this 2011 White Paper on SME in Viet Nam, with the aim of:

- Reviewing what has been achieved by enterprises in recent years, based on the most up-to-date official statistical data.
- Better understanding the constraints and opportunities faced by Vietnamese SME, and to develop a prioritized action plan to address these concerns.

- Developing a shared vision about the future direction of business development, including linkages between SME, larger firms and foreign invested firms.

- Building public awareness of the contribution of Vietnamese SME to economic development and poverty reduction.

6. This 2010 White Paper on SME in Viet Nam was prepared by the Agency for Enterprise Development in collaboration with General Statistics Office (GSO) staff, with the support of the Asian Development Bank (ADB). The team studied regional and international experiences, so as to see what lessons might be applied in Viet Nam, and to understand the changing global environment for business development.

7. This 2011 White Paper on SME comprises four main chapters, as follows:

- Chapter I: The overall environment for SME development;
- Chapter II: SME in Viet Nam;
- Chapter III: Facilitating SME development;
- Chapter IV: Prospects for the SME sector.

8. The Agency for Enterprise Development, Ministry of Planning and Investment highly appreciates comments and suggestions of colleagues, and the support of Asian Development Bank's consultants. Therefore, any comments or suggestions are welcome and can be sent to the following address:

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Agency for Enterprise Development
No. 6B Hoang Dieu Street, Ba Dinh District, Ha Noi
Tel: 080 43231; Fax: 04 3734 2189

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CHAPTER I: OVERALL ENVIRONMENT FOR SME DEVELOPMENT

1. The world's economy faced a lot of difficulties for the year of 2010. Even though the 2007 – 2009 financial crisis has gone away, it still has persistent effects on some part of the world. The sovereign debt crisis is spreading out rapidly across Europe where rising government debt levels are urging countries to implement tighten financial policies, which ironically makes the rate of unemployment increase. Currency debate is now raging when many countries are keeping their currencies at low foreign exchange rates to strengthen their competitive advantage. Even worse, gold prices have been increasing over the past ten years and serious inflation is prevalent among countries. However, on the bright side of the world's economy, emerging economies have shown an impressive year of rapid growth, especially China, ranked second in the world.

2. The economy of Viet Nam in 2010 kept a speedy recovery in that context. Viet Nam's real Gross domestic product (GDP) reached VND 1,980,000 billion, equivalent to USD 104.6 billion. The number represents an increase of USD 13 billion in GDP from 2009, showing that Viet Nam had crossed the line of USD 100 billion for the first time. The economic growth continued to accelerate over each quarter at a highest rate of about 7.34% in Quarter IV of 2010. Therefore, the growth rate of GDP in 2010 reached 6.78%, exceeding the target of 6.5% set by the Congress and higher than the rate of 6.31% in 2008 and 5.32% in 2009. Economic sectors also gained higher growth rates compared to 2009. Specifically, the industry and construction sectors had the highest growth rate (7.7%) while that figure of agriculture was only 2.8%.

3. Viet Nam has attained many macro-economic targets with encouraging results. To be specific, development investment capital in 2010, accounted for 41.9% of GDP, increased by 17.1% compared to 2009. Export earnings totaled about USD 71.6 billion in 2010, increased by 25.5% compared to 2009, four times much more than the target set by the Congress (of about 6%). Trade deficit dropped to the record low of about USD 12.4 billion, equal to 17.3% total export. The State budget revenues in 2010 were 13% higher than estimated and increased by 18% compared with 2009. Deficit spending in 2010 decreased by 5.8% of GDP, much lower than the estimate of 6.2% given by the Congress and lower than that in 2009 of 6.9%. This is a positive sign of decreasing budget overspending for the coming years.

4. Despite achievements gained, the economy still faces a lot of difficulties and challenges as an effect of the world's economy and domestic economic problems. Steady macroeconomic balances have not been obtained, that is, the balance of trade has been improved but still in serious deficit, foreign currency reserves have decreased compared to the previous years, and lending interest rate is still high. The consumer price index (CPI) in December 2010 increased by 11.75% compared to December 2009, higher than the target. The average CPI of 2010 was 9.19% higher than that of 2009. Fluctuations in foreign exchange rates were very complicated in 2010. Even though the interbank exchange rates were adjusted to increase in February and October by the State Bank of Viet Nam, there was a big gap between the interbank exchange rates and free-market foreign exchange rates, and the fixed exchange rate sometimes was even 10% lower than the free-market's. Foreign exchange instabilities and fluctuations in foreign exchange rates have hindered import and export activities. The depreciation of the domestic currency also made inflation more serious as prices of imported goods rise rapidly. The total public debt in 2010 was estimated to be at

42.2% of GDP but the amount actually exceeded 50% of GDP. Public and external debts of Viet Nam have grown in both size and frequency. Public debt per capita rose sharply from USD 144 in 2001 to USD 600 in 2010 at an average rate of 18 %.¹

Table 1:Key macroeconomic indicators

Indicators	2005	2006	2007	2008	2009	2010
GDP growth (% per annum)	8.4	8.2	8.5	6.2	5.32	6.78
Inflation (change in CPI, % per annum)	8.3	7.5	8.3	23.1	6.9	11.75*
Credit growth (% per annum)	31.7	25.4	53.9	25.4	37.7	27.65*

Source: Data from 2005 to 2008 provided by IMF, and from 2009 – 2010 provided by GSO

5. The incremental inflation rate in 2010 was one of the most important factors that created economic instability. It came from several factors like natural disasters, currency depreciation, a rise in the world general price level, and an increase in the money supply, which occur simultaneously. Besides, inflation in Viet Nam is structural inflation, which is hard to change in the short-term. Interest rates are still high, causing obstacles to businesses. The main reason comes from the unexpectedly high inflation rate, tightened monetary policies, massive investment in the public sector and even from pressure brought about by the State's regulations, such as Circular No.13/2010/TT-NHNN of SBV dated May 20, 2010 on prudent ratios in operations of credit institutions. Credit growth rate reached 27.6% and the growth rate of money supply was 25% in 2010. Significantly, the growth rate of credit in foreign currency was much higher than that in domestic currency. The banking system found capital mobilization more difficult, but the positive sign is that the deposit growth remains was still higher than the credit growth.

6. Securities market has undergone unpredictable changes. As of December 29, 2010, total market capitalization of two Vietnamese stock exchanges was USD 37,128 million, equivalent to 38.62% of GDP. Macroeconomic instability and the global economic downturn led to a decrease in cash-flows into the securities market in 2010. After the closing session on December 31, 2010, the VN-Index of Ho Chi Minh Stock Exchange (HOSE) stood at 484.66, lost 10.14 points, equal to 2%, the HNX-Index stood at 114.24, lost 32% compared to the beginning of 2010. On average, liquidity in the stock market remained at a low level. For example, on HOSE, on average, only 46.4 million units were transacted of total value of VND 1,506 billion. The gloomy stock market has hindered businesses from mobilizing capital.

7. This situation has made a direct impact on SME. According to a survey conducted by the Viet Name's Chamber of Commerce and Industry, only one-third of total number of SME had access to bank loans. Although the Government has issued various preferential policies,

¹ Dr. Le Quoc Hoi, Viet Nam Economic Outlook 2010 and Recommendations for 2011, http://www.ktpt.edu.vn/website/249_tong-quan-kinh-te-viet-nam-nam-2010-va-khuyen-nghi-cho-nam-2011.aspx

* <http://www.thesaigontimes.vn/Home/xahoi/sukien/45680/Kinh-te-Viet-Nam-nam-2010.html>

* <http://vneconomy.vn/20101227034048786P0C6/tang-truong-tin-dung-2010-xanh-vo-do-long.htm>

SME who received bank loans only account for 5 to 10 % of total the number of SME as they are unable to afford banks' interest rates. Even when the Government has enforced a mechanism to give preferential credit to support production, business and export operations of SME, there are still many barriers to the source of fund due to troublesome and slow lending procedures. In order to eliminate those difficulties, the Prime Minister has issued Decision 03/2011/QD-TTg on Credit guarantee for SME. The Viet Nam Development Bank is authorized to act as a credit guarantor for SME to borrow from commercial banks. Those enterprises are received support in terms of measures and financial sources to implement their projects. However, a recent survey conducted by the Viet Nam Association of Corporate Directors, on 2000 SME has shown that more than 80% of enterprises do not know about programs and preferential policies of the Government. They do not know which agencies they should consult while government agencies themselves are confused when making guidelines. With a view to give financial support to SME via credit fund, thirteen credit funds have been established across 63 provinces and cities. Nevertheless, only a few of them have come into operation, yet not very effective due to several reasons like limited local budgets and difficulty in raising funds. Most SME did not meet requirements to implement their projects, especially the feasibility of the project². SME found it hard to access to official sources of funds because most banks only gave loans to their loyal customers or large corporations. About 75% of SME had to borrow from unofficial sources of funds at an interest rate of up to 5 to 6% a month.

8. Viet Nam is now facing the risk of macroeconomic imbalances following a cyclic pattern and creating uncertainty as well as economic downturns in the medium to long-term. There has been limitation in taking full advantage of WTO integration to gain economic growth and opportunities to restructure the economy after the financial crisis. In response to fluctuations in the global economy, the Government has made adjustments to policies. For example, in 2008 the Government applied tightened financial and monetary policies to curb inflation; in 2009 stimulus programs were used with an aim to encourage economic growth, and then in 2010, tight but flexible financial and monetary policies were used again to restrain inflation, stabilize the macro-economy, and sustain economic growth. There is an urgent need for Viet Nam to adopt a new economic growth model and restructure the economy in a sustainable direction to deal with the root causes of macroeconomic instabilities in the short-term.³ Persistent inflation and high interest rates have led to a decrease in savings from households and firms, imposing negative impacts on domestic investment. This is represented by a decrease of 4.7% in the number of newly-registered enterprises in the first half of 2011 and a decrease of 5.4% in total registered capital in comparison with the same period in 2010.⁴

9. Competitive capacity of Vietnamese enterprises in general and SME in specific is diminished and eroded by macroeconomic imbalances. According to the statistics given by the Ministry of Planning and Investment, only in the first 9 months of 2011, there have been nearly 49,000 business dissolutions, in which 11,500 enterprises stopped operation, 31,500 stopped tax payments, and about 5,800 enterprises went bankrupt. The number of enterprises going bankrupt is expected to be increase one and a half or even double as many as the

² Three key measures to support SME to stabilize production <http://Ha.Noimoi.com.vn/newsdetail/Kinh-te/520171/ba-giai-phap-co-ban.htm>

³ UNDP, Economic Department, National Assembly, Viet Nam Academy of Social Sciences, Recommendations at the Viet Nam Economic Forum: Issues in medium and long term, Ha Noi, July, 2011.

⁴ Newly registered enterprises to drop down 4,7% in 6 months, <http://ddd.com.vn/2011062908173826cat44/6-thang-doanh-nghiep-dang-ky-moi-giam-47.htm>

average number 5,000 – 7,000 in the previous years. It is predicted that there are about 60,000 enterprises, accounting for 10% of total current number of enterprises in 2011, which may go out of business and stop paying taxes.⁵ According to Viet Nam Association of Small and Medium Enterprises, about 20% enterprises seem unable to continue their operation. Apart from this, about 60% of the association's members are exposed to negative effects of the economy, resulting in inefficient and downgraded operation. Inflation is making companies out of control of production costs, lose market shares, and unable to finance their production. The rest 20% have suffered little effects of the economy and stood firm because their production is not overdependent on loans and is led by a cohort of experienced management board. All of these mean that up to 80% enterprises are facing difficulties.⁶

10. Decline in competitive capacity of enterprises also leads to decline in the country's competitiveness. Viet Nam's competitiveness is dropped from 59th (increased by 16 steps against 2009) to 65th (decreased 6 steps against 2010) among 142 countries and territories according to the 2011-2012 Report on Global Competitiveness of WEF publicized in September 2011. Currently, the high inflation, large budget deficits (6% in 2010), poor infrastructure, complicated administrative procedures, intellectual property rights (ranked 127th), and corruption prevention capability are the top matters of concern.

11. The Report named "Business Environment 2012: Doing Business in a More Transparent World" published on October 20, 2011 by the World Bank and the International Finance Corporation (IFC) is also a noticeable one. It shows that Viet Nam is ranked at the 98th among 183 economies, a decrease compared to the 90th rank in 2010. Apart from changes in the scoring system and ranking methods, the drop of Viet Nam's business environment ranking drop rooted from weaknesses in tax payment and handling of companies declared insolvent or out of business. Meanwhile, on a global scale, a large number of economies, totaled 125, have carried out nearly 245 major reforms in business regulation. "In the context of a global and regional economy which is increasingly competitive and dynamic in attracting private investment, Viet Nam needs to speed up thorough reforms to sustain competitiveness and get the best of domestic and foreign private enterprises' potentials to foster the country's development", said representative from the World Bank in Viet Nam.⁷

12. Problems and difficulties in SME development in specific and the country's development in general have been acknowledged and are now being addressed. The Political Report of the Central Executive Committee (Session X) at the Vietnamese Communist Party's Congress XI early 2011 clearly states that: "The economy is under a unsustainable growth while quality, efficiency and competitiveness are at low level, incommensurate with the country's potentials, opportunities and needs, and some targets have not been reached". The report also shows the need to "*transform the horizontal economic development pattern into a pattern with balanced horizontal and vertical directions, not only extending scale but also improving quality, efficiency, and sustainability*". It is of great importance to restructure the economy with the focus on the production and service sectors corresponding to conditions of specific regions, speed up restructuring of corporate development strategies, and increase domestic value, added value, and competitiveness of goods, of the company and of the whole

⁵ Behind the bankruptcy of 49,000 enterprises, <http://vef.vn/2011-10-14-dang-sau-su-pha-san-cua-49-000-doanh-nghiep>

⁶ SME in need of support, Thursday, July 14, 2011 <http://ddd.com.vn/20110714092247763cat44/doanh-nghiep-nho-va-vua-can-duoc-ho-tro.htm>

⁷ Viet Nam steps down 8 level in business environment ranking, Economy and Forecast Review, October 25, 2011, <http://kinhtevadubao.vn/p0c303n10773/viet-nam-bi-tut-8-bac-ve-xep-hang-moi-truong-kinh-doanh.htm>

economy. Business environment should be improved with investment attraction strategies to raise capital and effective use of domestic and foreign resources. There also should be more incentives to encourage investment into the fields of industry, agriculture, hi-tech service, technological innovation solutions, and introduction of products, and pump more investment into science-intensive and high value-added processes in production and global distribution chain". The private sector, represented by SME, contributing the most to GDP, is considered as one of the driving forces of the economy.

13. The Socio-economic development strategy for 2011-2020 has mapped out a route for the development of SME in 10 years. These strategies include development of the labor force, establishment of appropriate production relations, formation of a consistent socialist-oriented market economy, transformation of the horizontal economic development pattern into a pattern with balanced horizontal and vertical directions, not only extending scale but also improving quality, efficiency, and sustainability, restructuring of the economy with the focus on the production and service sectors corresponding to conditions of specific regions, accelerated corporate restructuring of development strategies, adjustment of market strategies, improvement of domestic value, added value, and competitiveness of products, of the company and of the whole economy, and development of knowledge economy. On the other hand, economic growth should go along with environment protection and development of green economy.

14. In particular, the 3rd Plenum of the Central Committee (Session XI) held in October 2011 called for drastic measures to economic restructuring. In 2011-2015 period, especially in 2012, Viet Nam will need to effectively handle the relationship between the economic growth rate and the quality; between high growth rate and macroeconomic stabilization, between inflation restraint to stabilize the macro-economy and renovation of economic growth model to restructure the economy, between economic and cultural development, and between cultural development and social welfare security. The priority is given to inflation restraint to stabilize the macro-economy and ensure social welfare, which goes in line with renovating the economic growth model and restructuring the economy to form a firm base for higher economic growth in the last years of the period. The 3 key tasks to be prioritized in the next 5 years are investment restructuring with the focus on public investment, restructuring of the financial market with the focus on the commercial banking system and financial institutions, and restructuring of state-owned enterprises with the focus on large economic groups. Restructuring public investment is to effectively mobilize, allocate, and make efficient use of resources from the Government and the society. This goal can be reached only if there is a change in conception of and approaches to implementation of annual socio-economic development plans and the plan for a five-year period.

CHAPTER II – SME SECTOR IN VIET NAM

2.1. SME SECTOR IN VIET NAM

2.1.1. NUMBER OF ENTERPRISES

2.1.1.1 Number of registered enterprises, active enterprises, and dissolved enterprises

15. Currently, statistical data on the number of enterprises in Viet Nam can be divided into two categories:

- Data on registered enterprises; and
- Data on enterprises in active.

The Agency for Business Registration provides statistical data on registered enterprises, which was used to be provided by The Agency for Enterprise Development. Data on enterprises that are active is provided by the General Statistical Office (GSO), based on an annual enterprise survey. Enterprises that can also be considered active are those paying taxes, as recorded from the database provided by the tax agencies.

16. As of 2010, there were 550,000 established and registered enterprises in Viet Nam. Only in 2000 – 2010 period, nearly 500,000 enterprises established nationwide since the Law on Enterprise 1999, Law on Enterprise 2005 and Law on State Own Enterprise were implemented. While in the previous period from 1991 – 1999, there were only 47,158 registered enterprises (including cooperatives and enterprises belonging to political and social organizations) which were established in accordance with the Law on Private Enterprise, the Company Law and Decree No.50/HDBT.

Table 2: Total registered enterprises in the 2000 – 2010 period

Year	Number of registered enterprises	Accumulated number
2000	14,453	14,453
2001	19,642	34,095
2002	21,668	55,763
2003	27,774	83,537
2004	37,306	120,843
2005	39,958	160,801
2006	46,744	207,545
2007	58,196	265,741
2008	65,319	331,060

Year	Number of registered enterprises	Accumulated number
2009	84,531	415,591
2010	84,000*	499,519

Source: Business Information Center, Agency for Enterprise Development.

17. Despite of significant economic difficulties, the number of registered enterprises continued to rise. It is estimated that there were 84,000 newly registered enterprises in 2010, equal to 99.4% of registered enterprises in 2009. The total chartered capital of these enterprises reached VND 1,300 trillion, representing an increase of 151.4% against 2009⁸.

18. Data on business registration from 63 cities and provinces (see Table 8) showed the following tendency in the country's new enterprise establishment:

- Ha Noi and Ho Chi Minh are always the leading cities in terms of both the number of business start-ups and value of registered capital, cumulatively accounting for 50% of established business (13,000 newly registered enterprises in Ha Noi and 20,000 in Ho Chi Minh City) and 42% of total capital in 2008. The two hub cities are classified into Group 1.
- The second group includes more developed cities and provinces, such as Hai Phong, Da Nang, Binh Duong, Dong Nai and Ba Ria Vung Tau, which each had between 1,000 and 3,000 registered enterprises in 2008. These cities and provinces can be classified into Group 2.
- In contrast, the number of business start-ups in four poor provinces in the Northern mountainous areas -- Cao Bang, Bac Kan, Dien Bien, and Lai Chau - is fewer than 100. The remaining under-developed provinces in the Northern mountainous and Southern regions (eg. Son La, Yen Bai, Ha Giang, Bac Lieu, Tra Vinh, and Ninh Thuan) each had 100 to 200 newly established enterprises. They are classified into Group 3.
- The difference partly reflects the gap in overall economic development between locations. Nonetheless, the gap remains relatively wide; the figures for Group 1 are 10 times higher than Group 2, and in turn, Group 2 figures are 10 times higher than Group 3, on average. Given that the population of provinces in each group does not vary so markedly, this gap possibly is caused by the difference in awareness on market entry of each group⁹.
- With the sole exception of Thua Thien Hue, the 10 localities with the highest number of private businesses registered in 2008 were all in the South (ie. Ho Chi Minh City, Dong Nai, Kien Giang, Binh Duong, Khanh Hoa, Tay Ninh, Ba Ria Vung Tau, Can Tho and Long An). This fact reflects the difference in business culture among regions. The level of personal commitment, shown in business spirit and employer-employee

⁸ Report on socio – economic context in December and the whole year 2010, MPI (Government' s document for press conference on December 31, 2010) http://www.mpi.gov.vn/portal/page/portal/bkhd/ptktxh/38176?p_page_id=410030&p_cateid=353534&article_details=1&item_id=17567190

⁹ Ho Chi Minh City, the highest populous city among the above groups, has a population that is 22 times higher than that of Bac Kan province, the smallest province in Viet Nam, by population. Nonetheless, in 2008, Ho Chi Minh City possessed a number of enterprises registered that was 274 times greater than that of Bac Kan.

relationships, in these locations is significantly higher than in other cities and provinces.

- The number of joint stock companies registered in Ha Noi was twice as many as that of Ho Chi Minh City, while Ho Chi Minh City had 2.5 times higher than the number of limited companies than Ha Noi. This probably reflects the fact that the equity financing approach is not so well developed in Ha Noi.

19. The survey on *Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007* publicized by the General Statistics Office (GSO) in 2011 shown that there were a total of 248,842 active enterprises as of January 1, 2010. During 2000 – 2009 period, active enterprises achieved an average growth rate of 21.87% per annum. During the difficult time of 2007 – 2009 period, they still maintained a high growth rate of 18.2%, 32.05% and 20.98% in 2007, 2008, 2009, respectively.

20. According to the General Tax Department by end-2010, there are more than 336,000 enterprises paying taxes, including 318,530 private enterprises, 13,345 foreign owned enterprises and the rest of 4,431 enterprises belong to state-owned sector.

21. Generally, the number of enterprises in 2009 increased against 2008. Industries including water supply, waste treatment, construction, wholesales and retails, vehicle repair, transportation and storage, hospitality, information and communication, science and technology, education and training, art, entertainment saw a large increase of more than 20%. The fastest growth industries include consultation services, healthcare and community services with the growth rate of 60.81% and 40.38%, respectively. Processing industry saw an increase of more than 16.92%. Enterprises in agriculture, forestry and aquaculture sectors maintained a low growth rate of 2.72%. The growth rate of enterprises in finance, banking and insurance sectors also remained low due to tightened policies on the establishment of enterprises in these sectors. In the meantime, two industries experience a decrease in growth rate, including production and distribution of electricity, gas, hot water, steam and air conditioning (decreased by 38%) and housework services (decreased by 8.33%).

Table 3: Number of enterprises by industry during 2006 – 2009 period

	2005	2006	2007	2008	2009
Total number	112,950	131,318	155,771	205,732	248,842
Agriculture, Forestry and Aquaculture	2,320	2,399	2,443	8,517	8,749
Mining	1,152	1,361	1,687	2,257	2,521
Processing	21,876	26,082	30,235	37,647	44,018
Electricity, gas, hot water, steam and air conditioner distribution	2,846	2,938	3,215	3,467	2,143
Water supply and waste treatment	363	416	560	715	882
Construction	13,656	17,783	20,997	28,246	35,554

	2005	2006	2007	2008	2009
Wholesales and retails, vehicle repair	42,550	52,332	60,892	80,446	97,051
Transportation and storage	5,830	6,508	8,327	7,740	10,074
Hospitality	4,684	5,116	6,073	7,083	8,898
Information and communication	1,343	1,889	2,364	3,429	4,538
Finance, banking and insurance	1,593	1,671	1,895	2,068	2,129
Real estate	1,413	1,717	2,406	3,338	4,223
Science and technology	6,029	6,476	8,802	13,380	17,193
Consultancy services	3,557	2,510	3,225	3,838	6,172
Education and Training	1,032	785	980	1,370	1,788
Healthcare and community services	236	255	357	473	664
Entertainment	1,183	419	490	678	820
Other services	1,278	653	820	1,028	1,417
Housework services, private household employment	9	8	3	12	11

Source: General Statistics Office, Statistical Year Book 2010. Statistical Publishing House, 2011

22. In 2010 and the first 9 months of 2011, Viet Nam's economy encountered many challenges, reflecting in the large number of enterprises being dissolved, bankrupted, shut down and stopped paying taxes. According to MPI, only in the first 9 months of 2011, there were nearly 49,000 enterprises dissolved, bankrupted, shut down and stopped paying taxes, including 11,500 dissolved enterprises and 31,500 enterprises which stopped paying taxes. There were 5,800 enterprises went bankruptcy and dissolution. It is estimated that the number of dissolved, bankrupted enterprises would be double that number of previous year in average (from 5,000 – 7,000 enterprises). In 2011, it is expected to have about 60,000 enterprises which would go bankrupted, dissolved, shut down or stopped paying taxes, accounted for 10% of 600,000 enterprises currently¹⁰.

2.1.1.2. NUMBER OF SME

23. Under Decree No.56/2009/ND-CP of the Government on June 30, 2009 on assistance to the development of SME, enterprises could be classified into 4 categories including: micro enterprise, small enterprise, medium enterprise and large enterprise, bases on labor scale, capital and economic sector.

¹⁰ Behind the bankruptcy of 49,000 enterprises, <http://vef.vn/2011-10-14-dang-sau-su-pha-san-cua-49-000-doanh-nghiep>

Table 4: Enterprises by categories regulated under Decree No.56/2009/ND-CP

Sector	Micro enterprises	Small enterprises		Medium enterprises		Large enterprises	
	Number of laborers	Total capital	Number of laborers	Total capital	Number of laborers	Total capital	Number of laborers
I. Agriculture, forestry and fishery	≤ 10	\leq VND 20 billion	From 10 to 200	From VND 20 – 100 billion	From 200 to 300	More than VND 100 billion	More than 300
II. Industry and construction	≤ 10	\leq VND 20 billion	From 10 to 200	From VND 20 – 100 billion	From 200 to 300	More than VND 100 billion	More than 300
III. Trade and services	≤ 10	\leq VND 10 billion	From 10 to 50	From VND 10 – 50 billion	From 50 to 100	More than VND 50 billion	More than 100

24. According to the General Statistics Office, most of active enterprises have small and medium size (in accordance with the classification criteria regulated in Decree 56/2009/ND-CP of the Government dated June 30, 2009 on assistance to the development of SME). In term of labor scale, among 248,842 active enterprises as of January 1, 2010, there are 162,785 micro enterprises, 74,658 small enterprises, 5,010 medium enterprises and 6,389 active enterprises. The total number of micro, small and medium enterprises accounted for 97.43%. During 2000 – 2009, micro enterprise sector achieved the highest average growth rate of 24.7% per annum in term of number, while the average growth rate of small, medium and large enterprises are 20.41%, 11.79% and 7.28%, respectively.

25. The trend on enterprise growth in term of labor scale is noticeable. In overall, SME accounted for 97.09% total enterprises in 2008, and that proportion in 2009 increased to 97.43%. However, there were positive signs in each group. Namely, the growth rate of micro enterprise sector in 2009/2008 was 28%, showing a decrease against the growth rate of 33% in 2008/2007. The growth rate of small-sized enterprise sector in 2009/2008 was 9.72%, significantly decreased against the rate of 34.05% in 2008/2007. Whereas, the number of medium-sized enterprises in 2009/2008 grew at 11.73%, higher than that of 2008/2007 (10.47%). Similarly, the growth rate of large enterprises in 2009/2008 (6.86%) was also higher than that of the previous year (6.26%). These figures shown that the number of medium and large enterprises has increased. However, in term of proportion, small and micro enterprises still took a greater share.

Table 5: Number of enterprises by labor scale as of January 1, 2010

Year	Total	Micro enterprises	Small enterprises	Medium enterprises	Large enterprises
2000	42,288	22,638	14,396	1,849	3,405
2001	51,680	27,957	18,053	1,970	3,700
2002	62,908	33,047	23,329	2,284	4,248
2003	72,012	36,949	28,062	2,483	4,518
2004	91,756	49,042	35,047	2,892	4,775

Year	Total	Micro enterprises	Small enterprises	Medium enterprises	Large enterprises
2005	112,950	63,456	41,337	3,196	4,961
2006	131,318	80,060	42,649	3,418	5,191
2007	155771	95322	50763	4059	5627
2008	205689	127180	68046	4484	5979
2009	248842	162785	74658	5010	6389

Source: General Statistics Office, Viet Nam's Enterprises in the first 9 years of 21 century. Statistics Publishing House, Ha Noi, 2010 and Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volumn 2, Statistics Publishing House, Ha Noi, 2011.

26. Proportion of micro, small, medium and large enterprises widely varied among economic sector, including private sector, state-owned and foreign invested one. In private sector, micro, small and medium-sized enterprises took the largest proportion, of 98.54%. Whereas, the proportion of large enterprises was only accounted for 1.46%. In state-owned sector, large enterprises took a large proportion of 43.55%, and the proportion of micro, small, medium enterprises were 2.05%, 37.46% and 16.94%, respectively. In foreign invested sector, small enterprises made up the largest share with 53.16%, 21.81% were large enterprises, the proportion of micro and medium enterprises were 16.12% and 8.91%, respectively.

Table 6: Enterprises by labor scale and type as of January 1, 2010

	Total	Labor scale			
		Micro enterprises	Small enterprises	Medium enterprises	Large enterprises
Total	248,842	162,785	74,658	5,010	6,389
1. State-owned sector	3,364	69	1,260	570	1,465
Central level	1,805	24	528	289	964
Local level	1,559	45	732	281	501
2. Non-state sector	238,932	161,661	69,918	3,857	3,496
Collectives	12,249	6,089	5,873	123	164
Private	47,839	36,400	11,055	257	127
Joint partnership	69	50	17	2	
Private Limited Liability	134,407	93,322	37,695	1,967	1,423
Joint Stock Co. having state capital	1,740	80	819	263	578

	Total	Labor scale			
		Micro enterprises	Small enterprises	Medium enterprises	Large enterprises
Joint Stock Co. without state capital	42,628	25,720	14,459	1,245	1,204
3. Foreign invested sector	6,546	1,055	3,480	583	1,428
100% foreign capital	5,412	850	2,945	443	1,174
Joint venture	1,134	205	535	140	254

Source: General Statistics Office, Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011

27. Capital size of most of Viet Nam's enterprises is relatively small. As of January 1, 2010, there were only 1,581 enterprises having chartered capital of more than VND 500 billion, accounted for 0.61% of the total enterprises. 11,381 enterprises had capital from VND 50 billion to 500 billion, accounted for 4.56%. And 195,469 enterprises with the capital of less than VND 10 billion took the largest proportion of 78.55%.

Table 7: Enterprises by capital size as of January 1, 2010

	Total	Less than VND 0.5 billion	VND 0,5 – 1 billion	VND 1 – 5 billion	VND 5 – 10 billion	VND 10 – 50 billion	VND 50 – 200 billion	VND 200 – 500 billion	More than VND 500 billion
2000	42,288	16,267	6,534	10,759	2,745	3,957	1,515	312	199
2001	51,680	18,326	8,403	14,556	3,385	4,623	1,781	383	223
2002	62,908	18,591	10,994	20,141	4,490	5,771	2,160	501	260
2003	72,012	18,790	12,954	24,737	5,496	6,648	2,491	586	310
2004	91,756	23,187	16,191	32,739	7,303	8,269	2,904	760	403
2005	112,950	26,687	20,434	41,856	9,255	10,017	3,302	895	504
2006	131,318	15,908	21,809	64,137	12,487	11,502	3,835	1,009	631
2007	155,771	18,646	23,630	72,342	17,269	16,353	5,286	1,355	890
2008	205,689	21,957	27,233	95,873	26,169	24,728	6,834	1,737	1,158
2009	248,842	18,682	25,428	107,605	43,754	40,514	8,971	2,370	1,518

Source: General Statistics Office, Viet Nam's Enterprises in the first 9 years of 21 century. Statistics Publishing House, Ha Noi, 2010 and Business results of Viet Nam

Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volumn 2, Statistics Publishing House, Ha Noi, 2011.

28. By capital size, SME accounted for 95.97% of total enterprises, in which small enterprises accounted for 82.26%, the proportions of medium and large enterprises were 13.71% and 4.03%, respectively.

Table 8: Enterprises by capital size, as of January 1, 2010

	Total	Enterprises by capital size		
		Small enterprises	Medium enterprises	Large enterprises
2007	155,771	136,802	13,353	5,616
2008	205,732	177,813	20,355	7,564
2009	248,842	204,690	34,114	10,038

Source: Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.

29. By capital size and type of ownership, SME took the largest proportion in non-state sector with 97.19%, while large enterprises only accounted for 2.81% of the sector. State-owned sector comprises of 47.32% of large enterprises, and 52.68% of SME. In foreign invested sector, SME accounted for 73.54% and large enterprises accounted for 26.46%.

Table 9: Enterprises by capital size and economic sector as of January 1, 2010

	Total	Enterprises by capital size		
		Small enterprises	Medium enterprises	Large enterprises
TOTAL	248,842	204,690	34,114	10,038
1. State-owned sector	3,364	687	1,085	1,592
Central level	1,805	216	527	1,062
Local level	1,559	471	558	530
2. Non-state sector	238,932	201,359	30,859	6,714
Collectives	12,249	11,231	910	108
Private	47,839	44,358	3,190	291
Joint partnership	69	63	3	3
Private Limited Liability	134,407	112,714	18,513	3,180
Joint Stock Co. having state capital	1,740	388	660	692
Joint Stock Co. without state capital	42,628	32,605	7,583	2,440

	Total	Enterprises by capital size		
		Small enterprises	Medium enterprises	Large enterprises
3. Foreign invested sector	6,546	2,644	2,170	1,732
100% foreign capital	5,412	2,255	1,853	1,304
Joint venture	1,134	389	317	428

Source: General Statistics Office, Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.

Enterprises by industry and region

30. Viet Nam enterprises mostly belong to labor-intensive and low value-added sectors. SME spent limited capital investment on high technology, knowledge and capital intensive industries. According to a survey conducted by the General Statistics Office, a majority of enterprises registered their business lines in wholesales, retails, vehicle repair industries (39% of the total registered enterprises in 2006, 2007, 2008 and 2009). 17.69% and 14.29% of active enterprises as of January 1, 2010 engaged in pre-processing and construction industry respectively. Most of these enterprises could only create low added-value products or services, tended to use a large number of labors, low technology and having limited capital capacity.

Table 10: Enterprises by industry in 2006 - 2009

	2005	2006	2007	2008	2009
Total	112,950	131,318	155,771	205,732	248,842
Agriculture, Forestry and Aquaculture	2,320	2,399	2,443	8,517	8,749
Mining	1,152	1,361	1,687	2,257	2,521
Processing	21,876	26,082	30,235	37,647	44,018
Electricity, gas, hot water, steam and air conditioner distribution	2,846	2,938	3,215	3,467	2,143
Water supply and waste treatment	363	416	560	715	882
Construction	13,656	17,783	20,997	28,246	35,554

	2005	2006	2007	2008	2009
Wholesales and retails; vehicle repair	42,550	52,332	60,892	80,446	97,051
Transportation and storage	5,830	6,508	8,327	7,740	10,074
Hospitality	4,684	5,116	6,073	7,083	8,898
Information and communication	1,343	1,889	2,364	3,429	4,538
Finance, banking and insurance	1,593	1,671	1,895	2,068	2,129
Real estate	1,413	1,717	2,406	3,338	4,223
Science and technology	6,029	6,476	8,802	13,380	17,193
Consultancy services	3,557	2,510	3,225	3,838	6,172
Education and Training	1,032	785	980	1,370	1,788
Healthcare and community services	236	255	357	473	664
Entertainment	1,183	419	490	678	820
Other services	1,278	653	820	1,028	1,417
Housework services, private household employment	9	8	3	12	11

Source: General Statistics Office, Statistical Year Book 2010. Statistical Publishing House, 2011

Calculated by Economica Viet Nam.

31. There were a small but increasing number of enterprises engaged in key industries which played an essential part in the national competitiveness such as storage, information and technology, science and so on. The table shows that there were 14,612 enterprises engaging in transportation, storage and information fields at the end of 2009, accounted for 5.87% of total businesses and presenting an increase of 3,443 enterprises compared to 2008. There were 2,129 enterprises operating in finance and banking sectors, accounted for 0.86%

total active enterprises at end-2009. However, there were only 116 enterprises engaging in R&D at year end.¹¹

32. National programs and the Government's efforts should be continued in order to boost private investment in healthcare and education sector. At the end of 2009, there were 1,788 enterprises engaging in education field, accounted for 0.72%. However, there were only 0.4% of the total enterprises working in healthcare and social services sector, and similarly, the number of enterprises engaging in culture and sport were only 664, accounted for 0.27%.

33. Enterprises mostly located in large cities such as Ha Noi, Ho Chi Minh City, Da Nang, Can Tho and Hai Phong. There were 29.21% and 39.08% of the total of enterprises located in Red River Delta and Southeast region at the end of 2009.

Table 11: Enterprises by region in 2005-2009

	2005	2006	2007	2008	2009
The whole nation	112,950	131,318	155,771	205,732	248,842
Red River Delta	31,965	37,514	43,707	61,093	72,676
North eastern region	7,175	7,802	9,153	11,564	11,627
North Central and Central coastal areas	16,223	19,344	23,476	31,033	36,608
Highlands	3,564	4,039	4,597	6,576	7,294
South eastern region	39,601	47,130	57,022	73,877	97,253
Mekong Delta	14,258	15,325	17,652	21,425	23,220

Source: General Statistics Office, Statistical Year Book 2010. Statistical Publishing House, Ha Noi, 2011

34. Enterprise density of other provinces was relatively low. Highlands and North eastern region were two provinces having the smallest number of businesses, accounted 2.93% and 4.67% of total active enterprises at the end of 2009.

2.1.2. CAPITAL SIZE OF ENTERPRISES

35. In the recent years, SME have achieved significant growth rate both in terms of production and investment. Table below shows several key development indicators of this dynamic sector during 2000- 2009.

Table 12: Financial indicators of SME during 2000 – 2009 (private sector)

Unit: Billion VND

Year	Total capital	Fixed assets and long-term investment	Net income	Earnings before tax
2000	113,497	33,916	203,155	2,041

¹¹ „Reaching a New Height – Review of Policies for a Stronger Performance of Private Enterprises”, Economica Viet Nam, CIEM and UNDP (2011).

Year	Total capital	Fixed assets and long-term investment	Net income	Earnings before tax
2001	161,582	51,050	273,879	3,679
2002	237,381	72,663	364,844	5,486
2003	337,155	102,946	485,104	7,236
2004	495,691	147,222	644,087	8,050
2005	698,739	196,200	860,338	10,433
2006	983,988	298,296	1,142,571	19,822
2007	1,824,125	591,188	1,679,861	46,887
2008	2,723,008	957,342	2,973,456	36,566
2009	4,197,475	1,289,190	3,351,404	78,385.8

Source: General Statistics Office, Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.

36. Total capital of SME was significantly increased in the last decade. Total investment capital of private enterprises into the economy was increased from VND 113,000 billion in 2000 to VND 4,197,472 billion as of December 31, 2009. Moreover, the value of fixed assets and long-term investments were increased from VND 33,000 billion to 1,289,190 billion in 2009. Net income increased from VND 203,000 billion to 3,341,404 in the same period. It were estimated that SME could gain a value of profit before tax of VND 78,385.8 billion.

Table 13: Performance indicators of Viet Nam SME

	Average employee/enterprises (people)	Average capital/enterprises (billion dong)	Fixed assets & long-term investments / employee (million dong)	Average net income /employee (million dong)
2000	30	3.0	32.6	195.2
2001	30	4.0	38.4	206
2002	31	4.0	42.6	213.8
2003	32	5.0	50.2	236.6
2004	29	6.0	59.5	260.2
2005	28	7.0	65.9	288.8
2006	27	8.0	88.5	339.1
2007	27	12.0	150.3	427.1
2008	24	14.0	204.1	633.9

	Average employee/enterprises (people)	Average capital/enterprises (billion dong)	Fixed assets & long-term investments / employee (million dong)	Average net income /employee (million dong)
2009	22	17.6	245	636

Source: General Statistics Office, *Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.*

37. Viet Nam SME have convincingly demonstrated their ability and strength in the heart of economic storm. Current assets and short-term investments of SME sector increased from VND 1,232,937 billion in 2007 to VND 2,908,286 billion in 2009. The proportion of current assets and short-term investments of SME sector in the whole economy was also increased from 41.44% in 2007 to 44.76% in 2008 and to 81.14% in 2009. The growth rate of current assets of SME was 43.24% in 2008/2007 and 64.42% in 2009/2008. In term of fixed assets and long-term investments, the value of fixed assets and long-term investments of SME sector in 2009 was doubled in comparison with that of 2007, reaching VND 1,289,190 billion. The proportion of SME's fixed assets and long-term investments in the total value of all enterprises accounted for 31.91% in 2007, increasing to 34.05% in 2008 and to 35.97% in 2009. The growth rate of SME in fixed assets and long-term investments reached 62.05% in 2008/2007 and 34.57% in 2009/2008.

Table 14: Assets and investments of SME during 2007-2009

Unit: billion dong

	2007	2008	2009
Current assets and short-term investment of all enterprises	2,975,154	3,947,289	3,584,326
Current assets and short-term investment of SME sector	1,232,937	1,766,690	2,908,286
Fixed assets and long-term investments of all enterprises	1,852,764	2,814,026	3,584,326
Fixed assets and long-term investments of SME sector	591,188	958,042	1,289,190

Source: General Statistics Office, *Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.*

38. There was a large increase in term of owner's equity of SME during 2007 – 2009. Owner's equity of this sector was VND 667,533 billion in 2007, increased to VND 976,984 billion in 2008 and reached VND 1,442,680 billion at the end of 2009.

Table 15: Capital structure of SME during 2007-2009

Unit: billion dong

	December 31, 2007		December 31, 2008		December 31, 2009	
	Payables	Owner's Equity	Payables	Owner's Equity	Payables	Owner's Equity
TOTAL	3,326,822	1,501,096	4,571,097	2,189,764	6,009,059	2,794,262

	December 31, 2007		December 31, 2008		December 31, 2009	
	Payables	Owner's Equity	Payables	Owner's Equity	Payables	Owner's Equity
1. State-owned sector	1,661,090	490,046	2,169,279	780,535	2,473,811	800,137
2. Non-state sector	1,156,592	667,533	1,747,295	976,984	2,754,795	1,442,680
3. Foreign invested sector	509,140	343,517	654,524	432,246	780,453	551,446

Source:

39. Financial capacity of SME has been strengthened over the last decade, resulting in an expanding of their capital size in average. While in 2000, average capital of each enterprise was only VND 3 billion, the number was sharply increased to VND 17 billion in 2009. It is noteworthy that the average number of labors was decreased over years, from 30 labors in 2000 to 22 labors in 2009.

Table 16: Number of active enterprises at year end

	2005	2006	2007	2008	2009
Nation	112,950	131,318	155,771	205,732	248,842
Red River Delta	31,965	37,514	43,707	61,093	72,676
Ha Noi	18,214	21,739	24,823	39,547	48,455
Ha Tay	1,524	1,703	2,158		
Vinh Phuc	815	1,009	1,191	1,501	1,652
Bac Ninh	1,120	1,273	1,525	2,162	2,394
Quang Ninh	1,455	1,547	1,655	1,800	2,021
Hai Duong	1,480	1,766	2,119	2,741	2,990
Hai Phong	3,143	3,730	4,496	4,913	5,646
Hung Yen	719	809	1,080	1,355	1,605
Thai Binh	992	1,029	1,270	2,041	2,214
Ha Nam	546	642	753	1,102	1,391
Nam Dinh	1,159	1,368	1,700	2,521	2,634
Ninh Binh	798	899	937	1,410	1,674
North region	7,175	7,802	9,153	11,564	11,627
Ha Giang	251	247	314	472	572
Cao Bang	306	375	465	553	601

	2005	2006	2007	2008	2009
Bac Kan	290	329	326	362	376
Tuyen Quang	337	377	429	647	729
Lao Cai	638	647	693	802	861
Yen Bai	417	491	605	732	794
Thai Nguyen	872	917	1,157	1,633	1,018
Lang Son	534	567	614	697	580
Bac Giang	1,027	1,112	1,308	1,600	1,497
Phu Tho	1,165	1,286	1,460	1,733	1,851
Dien Bien	271	295	327	402	468
Lai Chau	183	202	283	377	521
Son La	333	369	450	563	653
Hoa Binh	551	588	722	991	1,106
North Central and Central coastal area	16,223	19,344	23,476	31,033	36,608
Thanh Hoa	1,766	2,256	2,698	3,719	4,127
Nghe An	1,901	2,018	2,754	3,910	4,406
Ha Tinh	868	1,086	1,211	1,512	1,702
Quang Binh	966	1,079	1,253	1,606	2,012
Quang Tri	561	670	800	1,266	1,517
Thua Thien Hue	1,150	1,357	1,769	2,440	2,878
Da Nang	2,621	3,271	4,030	4,352	6,004
Quang Nam	774	904	1,212	1,732	1,897
Quang Ngai	782	972	1,087	2,129	2,542
Binh Dinh	1,263	1,601	1,940	2,433	2,769
Phu Yen	571	672	750	974	1,058
Khanh Hoa	1,809	2,143	2,483	3,009	3,403
Ninh Thuan	390	410	429	584	683
Binh Thuan	801	905	1,060	1,367	1,610

	2005	2006	2007	2008	2009
Highlands	3,564	4,039	4,597	6,576	7,294
Kon Tum	324	369	490	586	738
Gia Lai	805	839	799	1,725	1,796
Dak Lak	1,069	1,227	1,516	2,075	2,368
Dak Nong	227	318	360	429	520
Lam Dong	1,139	1,286	1,432	1,761	1,872
South eastern region	39,601	47,130	57,022	73,877	97,253
Binh Phuoc	520	641	821	1,060	1,179
Tay Ninh	860	1,037	1,207	1,596	1,795
Binh Duong	2,918	3,596	4,382	5,320	6,384
Dong Nai	2,820	3,537	4,091	6,104	7,080
Ba Ria – Vung Tau	1,191	1,464	1,452	1,403	2,793
Ho Chi Minh City	31,292	36,855	45,069	58,394	78,022
Mekong Delta	14,258	15,325	17,652	21,425	23,220
Long An	1,260	1,618	1,988	2,460	2,781
Tien Giang	1,628	1,733	2,001	2,235	2,326
Ben Tre	1,044	1,019	1,214	1,515	1,542
Tra Vinh	509	599	647	673	761
Vinh Long	916	945	1,056	1,285	1,256
Dong Thap	990	1,005	1,097	1,446	1,583
An Giang	1,255	1,254	1,402	1,796	1,768
Kien Giang	1,981	2,155	2,472	2,831	3,021
Can Tho	1,662	1,900	2,078	3,125	3,437
Hau Giang	391	422	469	599	710
Soc Trang	850	774	1,025	808	1,241
Bac Lieu	621	661	701	776	802
Ca Mau	1,151	1,240	1,502	1,876	1,992

Source: General Statistics Office, Statistical Year Book 2010. Statistical Publishing House, Ha Noi, 2011. Calculated by Economica Viet Nam.

2.1.3. EMPLOYMENT IN BUSINESS SECTOR

40. During 2000-2009, the number of jobs created in state sector and non-state sector witnessed significant changes. In 2000, there was 2,088,531 laborers working in the state sector, accounted for 59% of total employment in the business sector while the number in non-state sector are 1,040,902, accounting for 29.4%. The remaining 11.5% of the workforce were employed by foreign invested enterprises. Total employment in the business sector in 2009 increased to 8,927,900 laborers, of which only 1,741,800, accounted for 19.50%, worked in State-owned sector; 59% with 5,266,500 employments and 21.50% with 1,919,600 employments were created by non-state sector and foreign-invested sector, respectively.

Table 17: SME sector is the largest employer

Year	Total	Laborers by sector			% of laborers by industry		
		State-owned sector	Non-state sector	Foreign-invested sector	State-owned sector	Non-state sector	Foreign-invested sector
2000	3,536,998	2,088,531	1,040,902	407,565	59.00%	29.40%	11.50%
2001	3,933,226	2,114,324	1,329,615	489,287	53.80%	33.80%	12.40%
2002	4,657,803	2,259,858	1,706,857	691,088	48.50%	36.60%	14.80%
2003	5,175,092	2,264,942	2,049,891	860,259	43.80%	39.60%	16.60%
2004	5,770,671	2,250,372	2,475,448	1,044,851	39.00%	42.90%	18.10%
2005	6,237,396	2,037,660	2,979,120	1,220,616	32.70%	47.80%	19.60%
2006	6,715,166	1,899,937	3,369,855	1,445,374	28.30%	50.20%	21.50%
2007	7,382,160	1,763,117	3,933,182	1,685,861	23.90%	53.30%	22.80%
2008	8,154,850	1,634,500	4,690,857	1,829,493	20.00%	57.50%	22.40%
2009	8,927,900	1,741,800	5,266,500	1,919,600	19.50%	59.00%	21.50%
2010			6,601,161				

Source: General Statistics Organisation (GSO), Viet Nam Enterprises in the first nine years of the 21st century, Statistic Publishing House, Ha Noi, 2010. Statistics Yearbook 2009 and 2010. Conducted by Economica Viet Nam.

41. Private SME sector, along with foreign-invested sector, has been creating a network of social insurance for unemployed laborers of State-owned sector and public sector, especially in the transition from planned economy into market-oriented one. During 2000-2010, about 5.6 million of new jobs have been created by foreign-invested sector while the State-owned sector made a 300,000 labor cut. Obviously, SME plays a vital role in sustaining low level of unemployment in Viet Nam in the past decade.¹²

42. Private SME sector play an important role in improving laborer's income. The average income of private SME' laborers saw a fourfold increase whereas a rise of 1.8 times is recorded in foreign-invested enterprises. As of 2009, the average salary in private SME stood at VND 33 million per year and in foreign-invested enterprises was VND 34 million per year. In 2000, average salary in private SME and foreign invested enterprises were VND 8 million/ year and VND 20 million/year, respectively. Due to the narrowed income gap, the attraction of private SME in terms of employment has been improved against State-owned sector. SME have contributed to job creation and income improvement in the past 10 year¹³.

43. As of December 31, 2009, female laborers made up for 42% the employment in business sector. The proportion is highest in foreign-invested sector at 67.37%, followed by 36.03% of non-state sector and 32.22% of State-owned sector. Within non-state sector, the proportion of female laborers in private sector was 32.68%, in joint partnership enterprises was 45.01%, in Limited liability companies was 36.93%, in joint stock companies having State capital was 39.79%, and in joint stock companies without State's capital was 36.86%.

Table 18: Female laborers in enterprises by sector, as of December 31

	2005	2006	2007	2008	2009
Total	2,681,432	2,938,588	3,249,851	3,524,523	3,749,998
1. State-owned sector					
	731,253	655,329	594,915	561,788	559,226
Central level	462,529	429,533	398,099	388,049	408,755
Local level	268,724	225,796	196,816	173,739	150,471
2. Non-state sector					
	1,145,776	1,308,622	1,516,259	1,726,373	1,897,480
Collectives	48,398	44,845	44,238	73,346	60,725
Private	166,302	170,948	176,579	187,783	186,801
Joint partnership	203	181	264	399	370
Private Limited Liability	643,698	702,644	771,337	835,627	935,806
Joint Stock Co. having state capital	113,134	150,308	178,360	202,576	191,849
Joint Stock Co. without state capital	174,041	239,696	345,481	426,642	521,929
3. Foreign invested sector					
	804,403	974,637	1,138,677	1,236,362	1,293,292
100% foreign capital	718,361	880,829	1,033,865	1,132,113	1,190,805
Joint venture	86,042	93,808	104,812	104,249	102,487

¹³ UNDP and CIEM. "Quick evaluation of SME's quality in the private sector in Viet Nam", Economica Viet Nam (2010) (more details at www.economica.vn).

	2005	2006	2007	2008	2009
Proportion (%)					
Total	100	100	100	100	100
1. State-owned sector	27.27	22.3	18.31	15.94	14.91
Central level	17.25	14.62	12.25	11.01	10.9
Local level	10.02	7.68	6.06	4.93	4.01
2. Non-state sector	42.73	44.54	46.65	48.98	50.6
Collectives	1.8	1.53	1.36	2.08	1.62
Private	6.2	5.82	5.43	5.33	4.98
Joint partnership	0.01	0.01	0.01	0.01	0.01
Private Limited Liability	24.01	23.91	23.73	23.71	24.95
Joint Stock Co. having state capital	4.22	5.11	5.49	5.75	5.12
Joint Stock Co. without state capital	6.49	8.16	10.63	12.1	13.92
3. Foreign invested sector	30	33.16	35.04	35.08	34.49
100% foreign capital	26.79	29.97	31.81	32.12	31.76
Joint venture	3.21	3.19	3.23	2.96	2.73

Source: General Statistics Office

44. In term of structure, non-state enterprises, with the majority is SME, provide the largest amount of jobs for female laborers of 50.6%. Foreign-invested enterprises provide 34.49% employments for total female laborers in business sector while the figure of State-owned enterprises is 14.91%.

45. During 2007-2009, the average number of employees per enterprise saw a downward trend, the average number of employees per enterprise in 2009 was 36 (declining from 40 in 2008 and 47 in 2007). The average number of employees in State-owned sector is highest at 516 this year, 518 in 2008 and 505 in 2007. Meanwhile, in foreign-invested sector, the average number of employees per enterprise is 293 in 2009, declining marginally in comparison with 2008 and 2007. Non-state sector has the lowest average number of laborers per enterprise, only 22 in 2009 (declining from 24 in 2008 and 27 in 2007). Within this sector, the average number of laborers per enterprise of joint stock companies having state capital is quite high, at 277 in comparison with the previous year. The average number of laborers per enterprise in private enterprises and joint partnership enterprises is genuinely low, only at 12 laborers in 2009.

Table 19: The average number of laborer in enterprise, by sector and economic sector

	2007	2008	2009
Total	47	40	36
1. State-owned sector	505	518	516
Central level	756	780	743
Local level	261	255	253
2. Non-state sector	27	24	22
Collectives	22	20	21
Private	13	12	12
Joint partnership	12	12	12
Private Limited Liability	25	22	19
Joint Stock Co. having state capital	272	276	277
Joint Stock Co. without state capital	43	36	33
3. Foreign invested sector	340	325	293
100% foreign capital	363	348	312
Joint venture	241	222	202

Source:

46. The average laborers per enterprise saw huge gap among economic sectors in 2009. That figure is high in some sectors such as Processing, manufacturing (94), Finance, banking and insurance (94), Mining (80), Water supply and disposal treatment and management (73), Electricity, gas and water generation and distribution (57). Those sectors with low average employee are other service activities (11), Wholesales and retails; Automobile, motorbike, vehicle repair (12), Scientific and technological activities (13), Education and training (16).

Table 20: The average number of laborers per enterprise by economic sector

	2007	2008	2009
Agriculture, Forestry and Aquaculture	104	44	43
Mining	110	93	80
Processing	125	105	94
Electricity, gas, hot water, steam and air conditioner distribution	35	45	57
Water supply and waste treatment	98	82	73
Construction	51	43	39

	2007	2008	2009
Wholesales and retails; vehicle repair	13	12	12
Transportation and storage	42	48	43
Hospitality	23	22	20
Information and communication	62	37	41
Finance, banking and insurance	77	87	92
Real estate	17	15	16
Science and technology	16	14	13
Consultancy services	33	30	25
Education and Training	18	17	16
Healthcare and community services	30	29	29
Entertainment	52	40	36
Other services	13	13	11
Housework services, private household employment	7	38	45

Source: General Statistics Office

47. Labor structure in economic sector have change, to be specific, the number of laborers is declining in agricultural sector and rising in industry and services sector. The employment in agriculture has slowed down from 2007 to 2009 at 1.24% in 2009/2008 (declining from 1.55% in 2008/2007) and especially at -2.88% in 2010/2009. Processing, manufacturing field saw a stable growth from 2007 to 2010 with the employment growth of 5.89% in 2009/2008, 7.50% in 2009/2008 and 8.53% in 2010/2009. Construction kept the pace in employment growth with 4.07% in 2008/2007, 5.09% in 2009/2008 and 19.81% in 2010/2009. Notably, the employment in real estate business has dramatically increased with 26.6% in 2009/2008 and 55.37% in 2010/2009. Other industries witnessing a high growth in employment (above 10%) during 2007-1020 are information and communication, finance, banking and insurance. The number of laborers in some industries have significantly reduced such as in transportation and storage (-0.51% in 2009/2008 and -0.65% in 2010/2009) and scientific and technological activities (-0.46% in 2010/2009).

Table 21: Laborers aged above 15 by industry, as of July 1

Unit: million of laborers

	2005	2007	2008	2009	Estimation-2010
TOTAL	42774.7	45208	46460.8	47743.6	49048.5

	2005	2007	2008	2009	Estimation-2010
Agriculture, Forestry and Aquaculture	23563.2	23931.5	24303.4	24605.9	23896.3
Mining	256.5	298.8	291.4	291.5	275.6
Processing	5031.2	5665	5998.8	6449	6998.8
Electricity, gas, hot water, steam and air conditioner distribution	135.4	121.3	132.7	131.6	130.2
Water supply and waste treatment	121	108.2	94.2	95.4	117.4
Construction	1979.9	2371.9	2468.4	2594.1	3108
Wholesales and retails; vehicle repair	4593.1	4929.5	5100.4	5150.7	5549.7
Transportation and storage	1290.4	1341.6	1433.3	1426	1416.7
Hospitality	824.5	1096.4	1307.4	1573.6	1711
Information and communication	151.4	180.5	204.8	228	257.4
Finance, banking and insurance	185.9	191.6	204.3	230.3	254.5
Real estate	19	53.9	51.5	65.2	101.3
Science and technology	157.5	158.3	183.1	218.5	217.5
Consultancy services	119.5	147.7	158.1	171.8	185.5
Activities of the Socialist Party and other political- social organizations: Government management, security; social guarantee	1679.9	1665.9	1650.6	1596.9	1599.2
Education and training	1258	1513.5	1492.7	1583.9	1673.4
Healthcare and community services	349.9	384.6	365.6	364.7	437
Entertainment	82.1	129.7	180.4	210.8	232.4
Other services	781.8	737.9	673.8	569	687.3

	2005	2007	2008	2009	Estimation-2010
Housework services, private household employment	189.8	175.6	163.4	183.3	196.7
International agencies and organizations	4.7	4.5	2.5	3.2	2.5

Source: GSO, *Statistic Yearbook 2010*, Statistic Publishing house, Ha Noi 2011

48. The statistics reported by GSO showed that non-state sector, with the majority of SME, is the source creating jobs for citizens. In 2010, employment for 86.1% people aged above 15 is provided by non-state sector. The State-owned sector accounts for 10.4% of the total employments while 3.5% is provided by foreign invested enterprises.

Table 22: Laborers aged above 15 by economic sector, as of July 1

Unit: million of people

	Total	Sector		
		State-owned sector	Non-state sector	Foreign-invested sector
2000	37,075.3	4,358.2	32,358.6	358.5
2001	38,180.1	4,474.4	33,356.6	349.1
2002	39,275.9	4,633.5	34,216.5	425.9
2003	40,403.9	4,919.1	34,731.5	753.3
2004	41,578.8	5,031	35,633	914.8
2005	42,774.9	4,967.4	36,694.7	1,112.8
2006	43,980.3	4,916	37,742.3	1,322
2007	45,208	4,988.4	38,657.4	1,562.2
2008	46,460.8	5,059.3	39,707.1	1,694.4
2009	47,743.6	5,040.6	41,178.4	1,524.6
Estimation-2010	49,048.5	5,107.4	42,214.6	1,726.5

Proportion (%)

2000	100	11.7	87.3	1
2001	100	11.7	87.4	0.9
2002	100	11.8	87.1	1.1
2003	100	12.1	86	1.9
2004	100	12.1	85.7	2.2
2005	100	11.6	85.8	2.6
2006	100	11.2	85.8	3
2007	100	11	85.5	3.5
2008	100	10.9	85.5	3.6
2009	100	10.6	86.2	3.2
Estimation-2010	100	10.4	86.1	3.5

Source: General Statistics Office, Statistics Yearbook 2010, Statistics Publishing House, Ha Noi, 2011

49. At the end of 2009, among active enterprises, enterprises having 5-9 laborers accounted for the highest proportion at 37.31%. The second position belonged to enterprises having 10-49 laborers of 22.04%. Enterprises with less than 5 laborers followed with 31.30%. The proportion of enterprises having 200-299, 300-499, 500-999, 1000-4999 and above 5,000 only made up a very small proportion.

50. At the end of 2009, most of the enterprises in non-state sector, in which SME were dominant, employed less than 50 people. To specify, the proportion of enterprises having 5-9 laborers took the highest proportion of 38.64%. Followed with 31.52% at the second position were enterprises having 10 – 49 laborers. Enterprises with less than 5 laborers accounted for 22.76%. The proportion of enterprises having more than 30 laborers was relatively lower than that in SOEs sector and foreign invested sector.

Table 23. Number of enterprises by labor size as of December 31, 2009

Labor size	Total	Number of enterprises			Proportion (%)		
		SOE	Non-state enterprises	Foreign-invested enterprises	SOE	Non-state enterprises	Foreign-invested enterprises
Less than 5 laborers	54,839	15	54,371	453	0.45%	22.76%	6.92%
5-9 laborers	92,852	38	92,313	501	1.13%	38.64%	7.65%
10-49 laborers	77,891	623	75,304	1964	18.52%	31.52%	30.00%

50-199 laborers	16,638	1,229	13,475	1934	36.53%	5.64%	29.54%
200-299 laborers	2,331	387	1,509	435	11.50%	0.63%	6.65%
300-499 laborers	1,845	416	986	443	12.37%	0.41%	6.77%
500-999 laborers	1,397	327	639	431	9.72%	0.27%	6.58%
1000-4999 laborers	956	294	318	344	8.74%	0.13%	5.26%
5000 and above laborers	96	35	17	41	1.04%	0.01%	0.63%
Total enterprises	248,842	3,364	238,932	6546	100.00%	100.00%	100.00%

Source: GSO Statistic Year Book 2010, Statistic Publishing House, Ha Noi 2011

2.1.4. BUSINESS LINES

51. It is a common fact in Viet Nam that enterprises typically register many business activities, even if they really focus on just a small number of these activities. It is therefore difficult to have a reliable statistical data on the business activities of SME. It is estimated that 40% of enterprises engaging in trading, 21% in processing, manufacturing, and 14% in construction (see Table 24). There was no significant change in the distribution of enterprises by industry in the 2000-2007 period (see Table 24).

52. According to GSO, in total of 248,842 active enterprises as of December 31, 2009, 97.42% were SME by their labor size. Classified by labor scale and industry, enterprises engaging in wholesales and retails; vehicle repair took the largest proportion in micro enterprises (47.56%) followed by medium-sized enterprises (28.02%), small enterprises (23.11%), and large enterprises (15.29%). These enterprises also accounted for the largest proportion in the total amount of enterprises nationwide (39%). Processing and manufacturing industries stood at the first place in large enterprises (41.07%), followed by small enterprises (27.12%), medium-sized enterprises (23.01%) and micro enterprises (12.28%). At the end of 2009, the number of enterprises working in this industry ranked second in the total amount of enterprises nationwide. The number of enterprises working in Agriculture, forestry and aquaculture was quite modest, only made up for 3.52% in the total enterprises nationwide, 2.2% in total number of micro enterprises, 6.63% in total small enterprises, 0.94% in total medium-sized enterprises and 2.18% in total large enterprises.

Table 24: Proportion of enterprises, by labor size and by main industry in 2009

	Total	By labor size			
		Micro enterprises	Small enterprises	Medium-sized enterprises	Large enterprises
	1=2+3+4+5	2	3	4	5
Total	248,842 (100%)	162,785 (65.42%)	74,658 (30%)	5,010 (2.01%)	6,389 (2.57%)
Agriculture, Forestry and	3.52%	2.22%	6.63%	0.94%	2.18%

	Total	By labor size			
		Micro enterprises	Small enterprises	Medium-sized enterprises	Large enterprises
Aquaculture					
Mining	1.01%	0.67%	1.77%	0.88%	0.95%
Processing	17.69%	12.28%	27.12%	23.01%	41.07%
Electricity, gas, hot water, steam and air conditioner distribution	0.86%	0.91%	0.88%	0.00%	0.05%
Water supply and waste treatment	0.35%	0.29%	0.43%	0.76%	0.94%
Construction	14.29%	11.53%	21.01%	9.64%	9.77%
Wholesales and retails; vehicle repair	39.00%	47.56%	23.11%	28.02%	15.29%
Transportation and storage	4.05%	2.75%	5.85%	11.78%	10.16%
Hospitality	3.58%	3.69%	3.11%	5.83%	4.32%
Information and communication	1.82%	2.19%	1.00%	2.18%	1.83%
Finance, banking and insurance	0.86%	0.88%	0.69%	1.32%	1.80%
Real estate	1.70%	2.03%	0.93%	2.53%	1.55%
Science and technology	6.91%	8.00%	4.89%	6.15%	3.24%
Consultancy services	2.48%	2.90%	1.30%	4.13%	4.35%
Education and Training	0.72%	0.82%	0.50%	0.74%	0.69%
Healthcare and community services	0.27%	0.22%	0.29%	0.80%	0.72%
Entertainment	0.33%	0.34%	0.21%	1.02%	0.86%
Other services	0.57%	0.71%	0.30%	0.28%	0.22%

	Total	By labor size			
		Micro enterprises	Small enterprises	Medium-sized enterprises	Large enterprises
Housework services, private household employment	0.004%	0.006%	0.001%	0.000%	0.016%
Total	100%	100%	100%	100%	100%

Source: General Statistics Office

53. Among the mentioned business lines, industries having high growth rate varied by enterprise scale in 2009/2008. Within micro enterprise sector, the industries attaining the highest growth rate were construction (38.75%), processing, manufacturing (33.65%), Water treatment (28.02%), Wholesales and retails; Vehicle repair (23.45%), Transportation, storage (47.38%), Hospitality (34.12%), Information and communication (42.09%), Real estate business activities (30.18%), Scientific and technological activities (34.16%), Education and training (39.46%), and Healthcare and community services (48.98%), Entertainment (34.30%). Within small enterprises sector, the highest growth rate was witnessed in water supply; water treatment (22.78%), transportation and storage (23.37%), healthcare and community services (25.29%). Within medium enterprises, construction (28.46%), mining (18.92%), information and communication (26.74%), real estate (36.56%) and Healthcare and community services (53.85%) were those of highest growth rates.

Table 25: Enterprise growth rate by industry in 2009/2008

	Total	By industry			
		Micro enterprises	Small enterprises	Medium-sized enterprises	Large enterprises
	1=2+3+4+5	2	3	4	5
Total	20.95%	27.99%	9.68%	11.21%	6.95%
Agriculture, Forestry and Aquaculture	2.72%	7.81%	-0.24%	-21.67%	-3.47%
Mining	11.70%	14.30%	10.18%	18.92%	-3.17%
Processing	16.92%	33.65%	6.22%	3.97%	4.21%
Electricity, gas, hot water, steam and air conditioner distribution	-38.19%	-42.74%	-23.95%	#DIV/0!	-75.00%

	Total	By industry			
		Micro enterprises	Small enterprises	Medium-sized enterprises	Large enterprises
Water supply and waste treatment	23.36%	28.02%	22.78%	8.57%	5.26%
Construction	25.87%	38.75%	14.22%	28.46%	1.30%
Wholesales and retails; vehicle repair	20.64%	23.45%	10.84%	10.90%	7.96%
Transportation and storage	30.16%	47.38%	23.27%	2.97%	9.44%
Hospitality	25.62%	34.12%	11.11%	15.42%	5.75%
Information and communication	32.34%	42.09%	1.50%	26.74%	18.18%
Finance, banking and insurance	2.95%	-0.49%	12.69%	0.00%	9.52%
Real estate	26.51%	30.18%	9.76%	36.56%	32.00%
Science and technology	28.50%	34.16%	13.46%	13.24%	15.00%
Consultancy services	60.81%	80.56%	13.73%	35.29%	26.36%
Education and Training	30.51%	39.46%	7.85%	5.71%	33.33%
Healthcare and community services	40.38%	48.98%	25.29%	53.85%	43.75%
Entertainment	20.94%	34.30%	-3.66%	-3.77%	17.02%
Other services	37.84%	50.32%	-1.30%	16.67%	7.69%
Housework services, private household employment	-8.33%	0.00%	-50.00%	#DIV/0!	0.00%
Total					

Source: Calculation based on General Statistics Office, Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.

54. Viet Nam SME achieved impressive growth rate during 2007-2009 despite being affected by the global economic downturn and domestic macro-economic turbulence. The growth rate in the number of micro enterprises was 33.42% in 2008/2007 and 27.99% in 2009/2008. Small enterprises achieved a high growth rate of 34.06% in 2008/2007 then decreased to 9.68% in 2009. Medium enterprises maintained its growth rate of 10.74% in 2008/2007 and of 11.21% in 2009/2008. Large enterprises witnessed smaller growth with 6.58% in 2008/2007 and 6.95% in 2009/2008.

Table 26: Growth rate of enterprises in term of number by labor size

	Total	Labor size			
		Micro enterprises	Small enterprises	Medium-sized enterprises	Large enterprises
2008/2007	32.07%	33.42%	34.06%	10.74%	6.58%
2009/2008	20.95%	27.99%	9.68%	11.21%	6.95%

Source: General Statistics Office, Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.

55. By capital scale, industries having the biggest number of active SME were wholesales and retails; Vehicle repair as of December 31, 2009 (including 37.92% of small enterprises, 50.01% of medium-sized enterprises and 23.52% of large enterprises). Processing and manufacturing industry ranked second, at 17.55% of small enterprises, 15.82% of medium-sized enterprises and 26.86% of large enterprises. Construction stood at the third place in total enterprises, with 14.9% of small enterprises, 11.62% of medium-sized enterprises and 10.86% of large enterprises.

Table 27: Number of small, medium-sized, large enterprises by capital scale and by main industry, as of December 31, 2009

	Total	By capital size		
		Small enterprises	Medium-sized enterprises	Large enterprises
Total	248,842 (100%)	204,690 (82.26%)	34,114 (13.71%)	10,038 (4.03%)
Agriculture, Forestry and Aquaculture	3.52%	4.06%	0.83%	1.46%
Mining	1.01%	1.02%	1.00%	0.88%
Processing	17.69%	17.55%	15.82%	26.86%
Electricity, gas, hot water, steam and air	0.86%	1.02%	0.07%	0.30%

	Total	By capital size		
		Small enterprises	Medium-sized enterprises	Large enterprises
conditioner distribution				
Water supply and waste treatment	0.35%	0.34%	0.34%	0.65%
Construction	14.29%	14.90%	11.62%	10.86%
Wholesales and retails; vehicle repair	39.00%	37.92%	50.01%	23.52%
Transportation and storage	4.05%	3.98%	4.10%	5.34%
Hospitality	3.58%	3.86%	2.30%	2.04%
Information and communication	1.82%	2.02%	0.84%	1.15%
Finance, banking and insurance	0.86%	0.51%	2.14%	3.46%
Real estate	1.70%	0.65%	3.71%	16.26%
Science and technology	6.91%	7.52%	4.82%	1.63%
Consultancy services	2.48%	2.55%	1.57%	4.08%
Education and Training	0.72%	0.81%	0.28%	0.26%
Healthcare and community services	0.27%	0.28%	0.18%	0.38%
Entertainment	0.33%	0.31%	0.32%	0.81%
Other services	0.57%	0.68%	0.06%	0.07%
Housework services, private household employment	0.004%	0.005%	0.000%	0.000%
Total				

GSO, General Statistics Office, Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.

2.1.5. PRODUCTIVITY OF VIETNAMESE ENTERPRISES

56. In the period 2007-2009, though the absolute number of SME generating profits was increased but its proportion in the total number of enterprises decreased from 68.48% in 2007, 70.6% in 2008 to 62.91% in 2009. Of all enterprises generating profits, SME accounted for 94.81% in 2007, 96.19% in 2008, and 96.07% in 2009. However, the total earnings of SME was relatively low compared to that number of the total enterprises, about 21.88% in 2007, 23.2% in 2008, and 29.93% in 2009. The average earnings per SME increased from VND 2.27 billion in 2007 to VND 2.48 billion in 2009. The average earning per SME

compared to that of all enterprises generating profits was also low, about 23.07% in 2007, 24.12% in 2008, and 31.17% in 2009.

57. The proportion of SME reporting losses decreased from 28.47% in 2007, 25.73% in 2008 to 25.15% in 2009. Of all the enterprises suffering losses, SME accounted for 93.87% in 2007 and 2008, 94.23% in 2009. The total loss of SME compared with business sector was 31.12% in 2007, 53.24% in 2008, and 55.71% in 2009. The average loss per SME suffering losses was VND 145 million in 2007, rapidly went up to VND 702 million in 2008, then slowed down at VND 633 million in 2009. The average loss per enterprise in SME sector was relatively high, at 33.11% in 2007, 56.75% in 2008, and 59.10% in 2009, compared with enterprises suffering losses over years.

Table 28: Number of enterprises reporting profits/losses in 2007, 2008, and 2009

Unit: VND million

	2007	2008	2009
Total number enterprises reporting profits	106,416	144,425	156,457
SME reporting profits	100,888	138,920	150,303
Total profits of enterprises	242,163.6	310,753.2	389,016.9
Total profits of SME	52,978.2	72,103.4	116,448.7
Average profit/enterprise (VND million)	2,276	2,152	2,486
Average profit/SME (VND million)	525	519	775
Total enterprises reporting losses	44,687	53,944	63,779
Total SME reporting losses	41,946	50,638	60,101
Total loss of enterprises	-19,572.5	-66,720	-68,319
Total loss of SME	-6,091.3	-35,524.6	-38,062.9
Average loss/enterprise (VND million)	-438	-1,237	-1,071
Average loss/SME (VND million)	-145	-702	-633

Source: General Statistics Office, Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.

58. From 2007 to 2009, net revenues of SME increased sharply. In 2009, the total net revenues of SME reached VND 3.351.404 billion, accounting for 56.27% of total net revenue in business sector, higher than that in 2008 (53.17%) and 2007 (47.1%). In 2009, the profit before tax of SME was VND 78.385,8 billion, accounting for 24.44% of the total profit before tax of business sector, higher than the rate 14.99% in 2008 and 19.65% in 2007.

Table 29: Revenue and profit of SME in the 2007-2009 period

Unit: VND billion

	2007	2008	2009
Net revenue of business sector	3,566,611	5,593,946	5,956,245
Net revenue of SME	1,679,861	2,974,326	3,351,404
Net revenue from business	34,59,803	5,384,268	5,785,146
Net operating revenue of SME	1,635,266	2,869,669	3,272,300
Earnings before tax	238,591.1	244,033.2	320,697.9
Earnings before tax of SME	46,886.8	36,578.8	78,385.8

Source: General Statistics Office, Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.

59. The profit ratio of SME also reflected the common difficulty in economy. In 2007, the return on equity was 2.57%, declining to 1.34% in 2008. In 2009, this ratio slightly improved, up to 1.87%. The return on equity of SME was relatively low, of 2.79% in 2007, 1.23% in 2008, and 2.34% in 2009. The profit ratio of SME was considerably low, compared with the business sector.

Table 30: Profit ratio of SME from 2007 to 2009

	2007	2008	2009
Return on equity of the whole business sector	4.94	3.61	3.64
Return on equity of SME	2.57	1.34	1.87
Return on revenue of the whole business sector	6.69	4.36	5.38
Return on revenue of SME	2.79	1.23	2.34

Source: General Statistics Office, Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.

The contribution of SME to State budget

60. From 2007 to 2009, SME sector made a significant contribution in taxes and other payables to the State Budget. In 2007, taxes and other payables to the State Budget of SME amounted to VND 58.403 billion. This number was sharply increased to VND 90,507.8 billion in 2008 and VND 111,181.4 billion in 2009. The proportion of total taxes and other payables to the State Budget of the SME business sector gradually increased from 26.57% in 2007 to 27% in 2008 and 30.9% in 2009. Growth rate of taxes and other payables to the State Budget of SME increased by 54.97% in 2008/2007 and 22.84% in 2009/2008, higher than that of the whole business sector (52.51% in 2008/2007 and 7.41% in 2009/2008).

Table 31: Taxes and other payables to the state budget during 2007-2009

Unit: VND billion

	2007	2008	2009
Taxes and other payables to the State Budget by the whole business sector	219,803.7	335,226.2	360,074.4
Taxes and other payables to the State Budget by the SME	58,403	90,507.8	111,181.4

Source: General Statistics Office, Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.

61. The proportion of tax payables over total revenues of SME were relatively low, standing at about 3.48% in 2007, 3.04% and 3.32% in 2008 and 2009, respectively. That proportion of the whole business sector from 2007 to 2009 was 6.16%, 5.99%, and 6.05%, respectively.

Table 32: Contributions to State budget of SME in the 2007-2009 period

	2007	2008	2009
Taxes and other payables to the State Budget of the whole business sector	6.16	5.99	6.05
Taxes and other payables to the State Budget of the SME	3.48	3.04	3.32

Source: General Statistics Office, Business results of Viet Nam Enterprises in 2007, 2008 and 2009 by Vietnamese standard industrial classification –VSIC 2007, Volume 2, Statistics Publishing House, Ha Noi, 2011.

Responsibilities of SME to workers

62. The SME sector made a great progress in performing their responsibilities to employees. In 2007, the proportion of SME paying social insurance over all enterprises in this sector only accounted for 46.71%. Encouragingly, in 2008, this proportion went up to 57.8% and reached 61.06% in 2009. The rate of SME paying insurance was close to the rate of the enterprises paying social insurance, health insurance and trade union fees for employees across Viet Nam.

Table 33: The number of enterprises participating in SI, HI and trade unions

	2007	2008	2009
The number of enterprises participated in SI, HI and trade union of the whole business sector	76,590	122,054	155,061
The proportion of participated enterprises (%)	49.17	59.33	62.31

The number of SME participated in SI, HI and trade union	68,810	113,736	145,895
The proportion of participated SME (%)	46.71	57.8	61.06
Total salary and income of the whole business sector (VND billion)	166,057	238,653	288,406
Total salary and income of SME (VND billion)	59,279	95,980	130,365
Total fund of SI, HI and trade union fees of the whole business sector (VND billion)	12,737	18,274	23,610
The proportion of SI, HI payables and trade union fees over total salary fund of the whole business sector	7.67	7.66	8.19
Total fund of social insurance, health insurance and trade union fees of SME (VND billion)	3,601	5,813	8,935
The proportion of SI, HI payables and trade union fees over total salary fund of SME	6.07	6.06	6.85

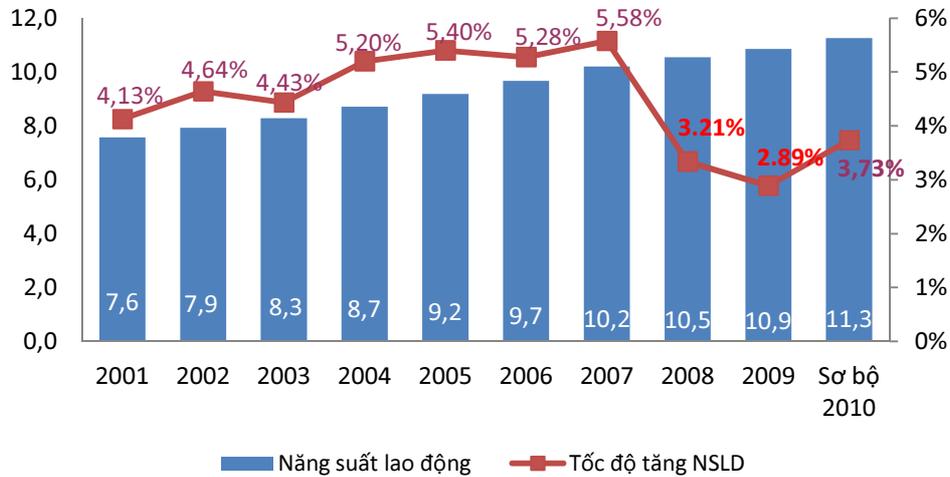
Source: GSO data, Production and Business results of Vietnamese enterprises in 2007, 2008, and 2009 in economy sector VSIC 2007, Volume 2, Statistical Publishing House, Ha Noi, 2011.

63. The total fund of SI, HI and trade union significantly increased over the period 2007-2009. In 2007, the total amount was VND 3.601 billion. In 2008, the amount increased by 61.43% to VND 5.813 billion. In 2009, this number of SME was up to VND 8.935 billion, 53.7% higher than that in 2008. The proportion of SI, HI payables and union fund of SME compared to that of the whole business sector increased from 28.27% in 2007 to 31.81% in 2008 and 37.84% in 2009.

Labor productivity

64. Enhancing the productivity of enterprises and of the whole nation is a key factor to achieve sustainable development and prosperity. Labor productivity is calculated by the operation efficiency to workmanship. As it can be seen in the GSO data, in 2010, Vietnamese labor productivity was VND 40.4 million. Labor productivity of the whole national economy in the period 2001-2009 kept increasing gradually, from VND 7.6 million in 2001 to VND 10.8 million in 2009 and VND 11.3 million in 2010 (fixed price at 1994). However, the growing rate of labor productivity remained slow; the average rate of the period 2001-2010 was only 4.46% per year. In 2008 and 2009, under the impact of the global economic crisis, the growth rate of labor productivity was only 3.21% and 2.89%, respectively. In 2010, the growth rate of labor productivity of Viet Nam has gradually recovered, up to 3.73%.

Figure 1: Labor productivity and growth rate in Viet Nam in the 2001-2010 period (fixed price at 1994)



Source: General Statistics Office and calculations of *Economica Viet Nam*

65. The net revenue per employee of the SME sector in the period 2007-2009 was still low, compared with the average rate. In 2007, this rate was VND 457 million/ employee; lower than the rate VND 483 million/ employee of the whole business sector and the rate of state-owned enterprise sector (VND 640 million per employee) and foreign investment enterprise sector (VND 450million per employee). In 2008, the rate increased considerably to VND 634 million per employee yet still lower than the average level of the business sector (VND 678 million per employee) and state-owned enterprise sector (VND 943million per employee), but higher than the foreign-invested enterprise sector (VND 543 million per employee). In 2009, the average revenue per employee of the SME sector maintained its increasing yet low growth rate of VND 636 million per employee, while the average level of the whole sector decreased to VND 668 million per employee.

Table 34: The average revenue per employee of business sector in period 2007-2009

Unit: VND million

	2007	2008	2009
The whole business sector	483	678	668
State – owned enterprise sector	640	943	865
Non-state enterprise sector	427	634	636
Foreign-invested enterprise sector	450	543	575

Source: General Statistics Office

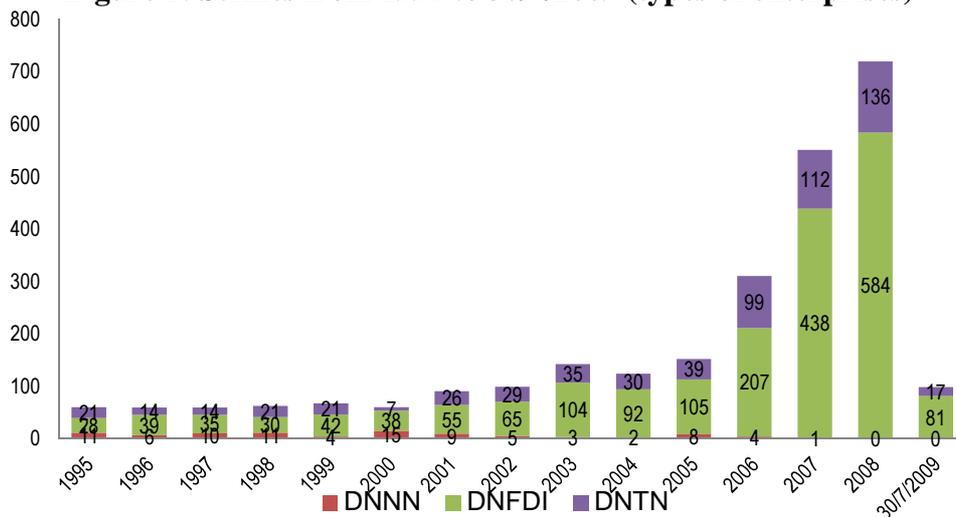
Social communication and labour relations in enterprises

66. Due to the limited capacity and representative role of the trade union, communication and negotiations was ineffective, especially in the process of developing collective bargaining agreements. The number of enterprises having this agreement was limited. According to the Viet Nam General Confederation of Labor, only 25% of all non-state enterprises, 40% of foreign-invested enterprises, and 95% state-owned enterprises had the collective bargaining agreements¹⁴.

67. According to the Viet Nam General Confederation of Labor, trade unions of enterprises are generally weak. In the SME sector, only 10% of private enterprises have their own trade unions; many of the trade union are just symbolic, even become “lengthened hand” of employers. Therefore, when dispute happens, workers were unprotected, leading to their only solution that is going on strike

68. According to the Ministry of Labor, Invalids and Social Affairs, from 1995 to July 30, 2009, there have been 2.743 strikes across Viet Nam. Most of strikes occurred in foreign-invested (2.023 cases, accounting for 73.8%). There were 631 cases in the private enterprise sector, accounting for 23%; 89 cases in the state-owned enterprises, accounting for 3.2%.

Figure 2: Strikes from 1995 to 30/7/2009 (types of enterprises)



Source: General data of the Department of Labor – Wage in 2009

69. The number of strikes tends to increase over years. In 1995, there were only 60 cases across Viet Nam, in 2008, this number rose up to 720 cases, 12 times higher. While the number of strikes in state-owned enterprises tended to decrease (15 cases in 2000, 8 cases in 2005, 4 cases in 2006, a case in 2007 and from 2008 to present, no case was reported), the mass strikes in foreign-invested enterprises tended to rise. In 1995, the number of strikes in FDI enterprises was 28 cases, in 2008, this number rose up to 584 ones. The number of strikes in enterprises of the private sector in 1995 was 21 cases, and then went up to 136 cases in 2008¹⁵.

¹⁴ “Labor and Social Trends in Viet Nam 2009/10” Report, Ministry of Labors, Invalids and Social Affairs, International Labor Organization (ILO).

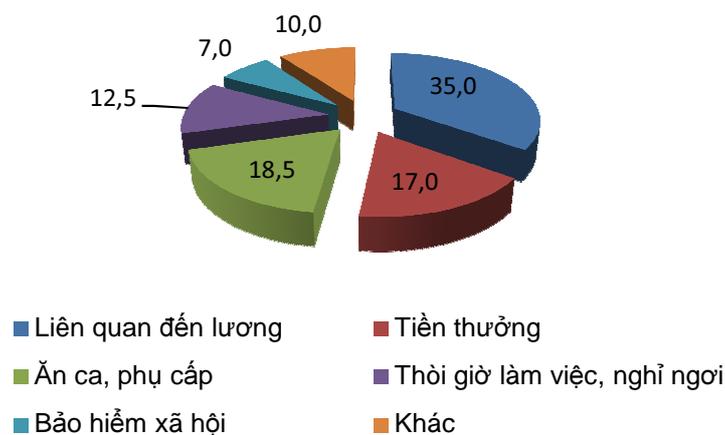
¹⁵ Nguyen Van Du, Strikes in Viet Nam Enterprises, current situation and solutions, *Labor and Social Science – Volume 20/3rd Quarter, 2009*

70. Most of the strikes took place in the Southeast Viet Nam, the leading economic developing region. With the fast pace of development and in great demand of a large labor force, this region attracted laborers migrating from northern and central regions. From 1995 up to now, there have been 2.103 strikes taking place in Ho Chi Minh City, Binh Duong and Dong Nai, accounting for 76.67% of the total number of strikes across the country. Especially, calculated by years, in 1999, 95.5% of the strikes took place in three provinces. In 2005, the rate of strikes in three provinces was lowest compared with the whole country, but it was also up to 63.8%

71. The causes of the strike taking place in Viet Nam came from two sides, the employers and employees. From the employer side, some businesses did not comply with the provisions of labor law and the commitments contracted with the employee such as: employers did not increase or increase salary at low level; working hours exceeded regulation, overtime work was not well paid; salary scale was not built; labor contracts were not appropriate; social insurance was not fully paid; job dismiss was unprovoked; working conditions were not safe enough. The employers did not really care for the benefits of the employees. From the employee side, strikes mainly come from their requirements related to wages, working hours, rest time, shift meal allowances for the situation of rising living cost, declining in actual incomes and living conditions¹⁶.

The below chart represents requirements of laborers in 2009 (%)

Figure 3: Requirements of laborers in 2009



Source: Data of Labor and Wage Office in 2009

2.2. SME SECTOR AND THE GLOBAL ECONOMIC RECESSION

72. The global financial crisis and economic downturn that began at the end of 2007, lasted throughout 2008 and continued into 2009, negatively impacted on the world economies and affected many businesses sectors. Such common constraints as a lack of capital, access to production premises, backward technology and weak competitiveness have all been exaggerated by the global economic downturn

73. Access to markets: the global economic downturn made global and domestic consumption decline. International economic relations, especially trade and investment flows, have been shrinking. World trade volumes contracted by 12% in 2009; the biggest decline in

¹⁶ UNDP and CIEM. Reach for a new height: Review of Policy to develop Private Enterprises. Economica Viet Nam (2011) (more detail at www.economica.vn)

seven decades. This made the market for domestic producers increasingly difficult, and especially for export oriented enterprises. The number and volume of export orders from major and traditional partners fell. In 2009, the number and value of export contracts for seafood, rubber, coffee, footwear, electronics, computers and components were all reduced compared to 2008. In terms of competitiveness of export goods in the world market, in most countries declining export turnover has led to a series of export protection and promotion policies, especially in regional countries which have similar export products, and also some trade protection measures, including some large markets. This has proved an obstacle to Vietnamese goods' competitiveness. Meanwhile, many enterprises were not able to forecast such fluctuations in market demand, and lack adequate access to information about the economic situation and market prices.

74. Access to land resources: many enterprises still face difficulties in accessing production premises. Many enterprises located outside industrial parks must often settle land clearance issues by themselves, with little support from local authorities, while cumbersome administrative procedures on land ownership remain. Domestic firms, who may only select the form of land allocation with annual land-use fees (and not the form of land lease that contains a lump sum for the agreed leasing period), often have to pay a larger amount of money for land than foreign invested firms.

75. Access to capital: in the context of a normal economic environment, difficulties in accessing capital by enterprises are typically common. However, in the context of an economic recession, such difficulties are even more pronounced, as capital becomes scarcer and capital providers become more risk-averse.

76. Business management capabilities: existing limitations on business management of domestic enterprises and SME in particular become worse in the context of economic recession. Many enterprises which got used to operating in the stable and protected environment do not actively restructure enterprises, thus they met difficulties in the context of economic crisis.

77. Foreign investment and capital: together with the world economic decline, the attraction and disbursement of foreign direct investment becomes more difficult. The global economic groups have been adjusting business strategies in order to deal with the worldwide financial crisis. This adjustment affects to the approved and potential projects. Many foreign investors have to reduce temporarily their scale and postpone some projects because of lacking credit. Therefore, it is possible for many approved FDI projects to be extended, reduced in scale or not to be performed which lead to a decrease in proportion of performed FDI capital ratio to the registered FDI compared with previous year. For potential investors, although Viet Nam is still an attractive market in medium and long-term visibility, they will consider more carefully and spend much more time to decide their investment.

78. In addition, the dormant difficulties of enterprise, especially SME such as low level of technology, passive application of technology, limited capability of human resource, etc. also badly affect enterprises' performance.

CHAPTER III – FACILITATING SME DEVELOPMENT

3.1. INITIATIVES FOR THE DEVELOPMENT OF SME IN VIET NAM

3.1.1. GOVERNMENT AND THE DEVELOPMENT OF ENTERPRISES

Enhancing the Government's role

79. The Government has been performing greater role in the development of enterprises. The year 2010 marked a significant shift from State-owned enterprises (SOEs) to single-member limited liability ones, especially since July 1, 2010¹⁷. The number of limited liability companies has also flourished as the Law on Enterprise allows individual to set up limited liability company. Up to now, SME make up for more than 95% in the number of enterprises nationwide, contributing for 48% GDP¹⁸ and present to be the fastest growing sector of the economy. In term of job creation, capital needed to create one new job in SME is only 3-10% in comparison with that amount in large enterprises, while the sector creates more than a half million of new jobs each year. Obviously, SME sector plays an important role in the industrialization and modernization process of Viet Nam.

In term of structure: the recent years saw a reduction in the number of private companies and a rise in the number of limited liability companies, especially joint stock ones (the number of newly established companies increased 15.16% in 2010). This is an inevitable trend of a market-oriented economy as individuals who establish enterprises have thorough understanding on their rights, obligations in personal property and legal asset management.

80. However, SME still have to face with inherited difficulties namely small scale, out-of-date technology, poor corporate governance capacity, unskilled laborers, and limited access to financial sources and land for production. Fully aware of the difficulties of SME as well as their significant role in the national socio-economic development process, the Government has continually offered assistances to SME with an aim to promote their sustainable development and capacity to access to international markets. The Government has issued a number of documents on orientation and strategies to SME development over time.

In 2010, the Government promulgated Resolution No.22/NQ-CP dated May 5, 2010 on 6 key set of measures to support SME in enhancing their capacity and resources to expand businesses. The Government also issued Decision to establish an Encouragement Council to assist SME¹⁹. Despite the Council has not yet carried out its full function, its establishment demonstrated a progress in Government's effort to promote this sector.

The Secretariat of the Party Central Committee issued Decision No.64-KL/TW dated February 9, 2011 on reviewing the implementation of Resolution No.14-NQ/TW (the 9th Tenure) dated March 18, 2002 on further innovation of mechanisms and policies, and encouragement and facilitation for the development of private sector. To further implementing Resolution No.14-NQ/TW (the 9th Tenure) on private sector's development, the Secretariat requested to make amendments, supplements to and establishments of regulations, mechanisms, policies, administrative procedures to further facilitate the

¹⁷ Decree No. 25/2010/ND-CP of the Government

¹⁸ Report on the implementation of 5-year SME development plan (2006-2010)

¹⁹ Decision 1918/QĐ-TTg dated October 10, 2010 on function and duties of SME Development Encouragement Council and Decision No.975/QĐ-BKHDT dated July 7,2011 of the Ministry of Planning and Investment on working mechanism of SME Development Encouragement Council

development of private sector. In specific, the Secretariat urged to streamline administration procedures regulated in Law on Enterprises, Law on Investment, Law on Tax Management; to make amendments and supplements to the Vietnamese accounting standards to match with the current level, scale and operation scope of SME. The Secretariat also requested for a mechanism to enable private companies to get access to official development assistance (ODA) as state-own enterprises and urged to fasten enterprise's restructuring in line with economic restructuring process toward promoting non-state enterprises to widen their business scale and to enhance competitive capacity in domestic and international markets.

81. From enterprise's view, Viet Nam SME agree that Government's assistance is essential to promote their development and competitiveness. The annual survey on SME's current business issues –ABM 2010 has clearly revealed that Viet Nam SME need government support for them to grow and develop, and truly put Vietnamese brands on the regional as well as global map for years to come²⁰. Government's assistance has promoted the development of SME during the last years, but it is the SME's great efforts, creativeness and innovation that drive SME's success.

According to orientation set forth in SME development plan in 2011 – 2015, the targets set for the next 5 years include: to have 450.000 newly establishment enterprises; to provide corporate governance training for 640.000 people of SME with the estimated cost of 400 billion dong; to increase the number of newly established SME to 22%/year on average; to increase the number of newly established SME in disadvantaged provinces to 15%/year on average; to increase the number of direct export companies to 6-7%. The SME development plan in 2011 – 2015 also adopts solutions for SME development in the period as follow: (1) to perfect framework on enterprise development; (2) to offer incentives and assistances for SME; and (3) to carry out SME assistance programs, and to set up SME Assistance Fund.

Improving business environment

82. *Administrative reform continues to be a matter of concern*; the Government has established a National Database on Administrative Procedures²¹, which provides administrative procedures and legal documents currently applied by all 24 ministries and 63 localities. This initiative aims at providing one common place for users to look for administrative procedures they need. The database, although has not been fully updated, is expected to offer wider access to regulations, to promote transparency of the institution and to provide a historical record of administrative procedure system over time.

Besides, 23 resolutions of the Government on steamlining administrative procedures have been implemented. As of June 30, 2011, ministries and branches established documents under their authorities and submit proposals on steamlining more than 3,000 administrative procedures, accounting for 63% of the set target. Of which, 1,182 procedures were officially regulated in legal documents and brought about direct benefit to citizens and enterprises. Several ministries have achieved significant results, namely the Ministry of Transportation, Ministry of Agriculture and Rural Development, Ministry of and Natural Resources and Environment, Ministry of Finance, Ministry of Science and Technology, Ministry of Home Affairs, Ministry of Justice, State Bank of Viet Nam, etc.

²⁰ Annual survey on business monitor in Asia (ABM) organized by UPS, focuses on SME in Asia Pacific Region.

²¹ Website <http://csdl.thutuchanhchinh.vn/>

83. ***In the area of business registration reform:*** In order to create more favorable condition for enterprises, business registration procedures have been continuously reformed, namely: to transform from pre-checking to post-checking; to integrate registration procedures of business, tax and seal; to consolidate procedures for market entry, etc.

According to evaluation of World Bank in 2011, business registration reform helped Viet Nam to increase 14 steps in the ranking system in term of convenience in business registration procedures. By implementing Project 30 of the Government on administrative reforms and business registration reform, Viet Nam increased by 10 steps against 2009, standing at the 78th among 183 countries and territories and the 4th among 10 economies undertaking largest reform in term of business environment²².

Thanks to the continuous reform and improved business environment, the number of newly established enterprises has increased significantly over years, from 14,500 enterprises in 2000 to 46,744 in 2006 to 84,531 in 2009 and 85,000 in 2010, respectively²³.

As of 2010, the total number of enterprises registered under the Law on Enterprises is 547,000 with the total registered capital of more than 3,520 million dong (equivalent to 176 billion USD), exceeded the Government's target of 500,000, and increased 11 times compared to the total number of enterprises established in the last decade (there were 45,000 enterprises established in 1990 – 1999 period). However, the number of enterprises are really operating is much lower. The total number of active enterprises as of December 31 of each year is just account for a half of the total registered number at the same time²⁴.

84. Year 2010 marked the implementation of consolidated registration mechanism, including business registration and tax registration. This is a foundation for State's agencies to coordinate in handling procedures, to shorten the processing time for market entry to less than 5 days. Achievements of business registration reform program have contributed significantly in the improvement of Viet Nam's business environment.

The Government established new legal framework on business registration by issuing Decree No.43/2010/ND-CP dated April 15, 2010. Accordingly, business registration and tax registration procedures were consolidated into only one application files and applied a uniform procedure for registration nation wide. Under the Decree, one unique code number shall be granted to each enterprise, which is also the tax code number of that enterprise during its operation.

Enterprise registration via the internet was also regulated under Decree 43/2010/ND-CP and Circular No.14/2010/TT-BKH dated June 4, 2010 of the Ministry of Planning and Investment. In fact, several cities/provinces such as Ha Noi, Ho Chi Minh City, Da Nang, Binh Thuan, Khanh Hoa, Dak Nong... have accepted online registration.

Moreover, strengthening State's management system on business registration is also perceived as an essential part besides simplifying the administrative procedures. This orientation is clearly reflected in the Prime Minister's Decision No.1659/QD-TTg dated

²² Viet Nam Business Annual Report 2010, Viet Nam Chamber of Commerce and Industry (VCCI) and World Bank (WB)

²³ Statistics from Business Information Center, ASMED, MPI

²⁴ As of December 30, 2009, there were 248,842 active enterprises – Statistical Yearbook in 2010.

September 9, 2010 on establishing Agency for Business Registration under MPI. Pursuant to the Decision, Minister of Investment and Planning issued Decision No.1899/QD-BKH dated November 8, 2010 on function, mandate and organization structure of the Agency for Business Registration.

85. The first phase of constructing the National Business Registration System (NBRS) has been completed; registration data from business registration agencies has been computerized into the national data based on a uniform standard. MPI, in cooperation with relevant agencies, is in charge of building and operating this professional database on enterprise registration, such as sending, receiving, archiving, displaying or handling other tasks related to enterprise registration process²⁵. On the system, enterprises could find information on their business registration or search for enterprise's names (which was last updated on October 5, 2011). More than 550 registration officers at central and local levels has been using the system, granting business license for about 7,000 newly established enterprises and updating amendments for about 8,400 enterprises each month.

Reforming tax and custom

86. Ministry of Finance is in charge of amending 132 documents to simplify 708 administrative procedures, in which 223 administrative procedures related to taxation and 135 administrative procedures related to custom field²⁶. In taxation field, the Ministry has processed their tasks fast, up to now, 26/30 documents were revised and supplemented for establishment or serving as proposals to authorized agencies, including 3 decrees of the Government. The Ministry has also summarized and made proposals on revising several articles in the Law on Tax Management. In custom field, Ministry of Finance issued or proposed to issue 23/27 legal documents, including 2 decrees and 1 joint circular to implement 126/135 administrative procedures, which helps to save up to 703 billion dong/year.

87. A wide range of policies relating to *tax reform* was established, including Decision No.732/QD-TTg dated May 17, 2011 of the Prime Minister on Approving the Tax System Reform Strategy for the 2011-2020 period; Decision No.2162/QD-BTC dated September 8, 2011 of the Minister of Finance on approving the Taxation Reform Plan for the 2011 – 2015 period and 9 key Projects on maternal aspects of tax activities to realize the Taxation Reform Strategies in 2011-2020; Decision No.1370/QD-TCT of the General Department of Taxation on establishing tax system reform plan in 2011...

There are several important tasks set out in the taxation system reform plan that closely relate to SME development, include: To build up and implement policies on appropriate taxes and fee collections to promote production and to enhance competitiveness of domestic products and services, as well as to boost export and investment; to fasten up economic structure transformation process, to generate employment; To revise and supplement taxation policies in line with the development orientation of a market-oriented economy under State's management, actively integrating into international market and attracting investment of economic sectors.; To build up and complete the taxation system, ensuring the transparency, clearness and easy for application.

88. Encouraging progress has been achieved, including: The effective cooperation between MPI and MOF in widening enterprise code number registration (business

²⁵ <http://dangkykinhdoanh.gov.vn/>

²⁶ Administrative Procedure Control Agency. Office of the Government

registration and tax registration) for entities namely household, collectives...; the application of e-custom declaration and e-tax filings of 40,000 enterprises; the implementation of pilot tax services by connecting taxation application systems of tax agencies with e-tax systems provided by service providers (T-VAN); reduction of declaration frequency with certain kind of taxes for SME, in which small-scale SME with a small amount of tax payable may declare tax on quarter/6 month/a year basis instead of monthly basis...

89. ***Enterprises are allowed to print their own invoice:*** This is considered as a breakthrough in tax reform progress. Decree 51/2010/ND-CP of the Government allows enterprises to print and issue their own invoices since January 1, 2011. Enterprises can print or order to print invoices and e-invoices, and add logo to the invoice for promotion purpose. Pursuant to this Decree, Ministry of Finance issued Circular No.153/2010/TT-BTC on September 28, 2010 to provide guidance on implementing Decree 51/2010/ND-CP.

90. ***E-custom procedures:*** e-custom procedures has been piloted and expanded since 2005 to date and brought about positive results. As of August 1, 2001, there were 47,000 businesses filed customs declarations online in 80 customs sub-branches belonging to 13 customs ports nationwide. Under the new procedures, average time of customs clearance for goods was significantly reduced, in specific, time for customs clearance of green-related papers is 3-15 minutes, e-yellow-related papers is 10-20 minutes, yellow-related normal papers from 10-60 minutes, according to statistics.

Besides, according to the Strategy for Customs Development through 2020 (Decision No. 448/QĐ-TTg dated March 25, 2011): By 2015, 100% of provincial and district-level Customs Departments in key areas (international seaports, airports and road border gates and key economic regions), 60% of basic customs operations, 70% of import and export value, and 60% of enterprises will apply e-customs procedures. By 2020, 100% of provincial and district-level Customs Departments, 100% of basic customs operations, 90% of import and export value, and 80% of enterprises will apply e-customs procedures.

Also, one of the top priorities in the oncoming period is to study, develop and implement the customs-to-business partnership program with the following principal contents: building and implementing mechanisms to encourage enterprises, organizations and individuals to give comments on policies, legal documents and customs procedures; to build a mechanism for collecting feedback and assessments of enterprises, organizations and individuals on the implementation of customs law; to step by step apply international standards and recommendations in the development of the customs-to-business partnership.

Trade and Investment facilitation

91. In the period 2001-2010, a large number of planning and investment institutions were established and basically met the demands of the economy, as well as significantly contributed to the national socio-economic stabilization and development. In the recent years, the Government and local authorities have made considerable efforts in improving investment environment in general and simplifying administrative procedures in some areas like investment, land and construction. However, enterprises still face with difficulties in completing procedures in investment, landing and construction field due to the complication and overlapping of legal documents. To this end, some localities have had initiatives in simplifying the registration procedures of investment, land and construction yet still following the current legal framework.

Bac Ninh province is considered as one of pioneer localities in reforming administrative

process, completing the administrative procedures of investment, land, and environment in areas outside industrial parks. On November 17, 2009, Bac Ninh Provincial People's Committee issued Decision No. 165/2009/QD-UBND, which includes regulations on the process and procedures for investment and construction by businesses in non- industrial parks areas under its authority. This significant reform contributed to Bac Ninh's recent upgrade in Provincial Competitiveness Index (PCI), standing at 6th in 2010's PCI nationwide.

In Ninh Thuan province, the People's Committee established Ninh Thuan Economic Development Office (EDO) in 2010 to promote and call for investment. EDO provides advice on work relating to investment promotion; serves as the focal point in providing guidance and support for investors to complete investment procedures from the beginning to end of the project cycle according to the free of charge "one-stop shop" model. EDO has positively improved the investment environment. Thanks to the efforts, Ninh Thuan's PCI in 2010 increased by 7 steps, stood at the 41th position.

92. **Investment Promotion:** Ministry of Planning and Investment issued Decision No.602/QD-BKHDT dated May 9, 2011, approving the List of Investment Promotion Activities in 2011 with the total budget for the promotion campaign of VND 20 billion. Accordingly, the investment promotion activities in 2011 will be tailor-made to suit with its subjects, sectors, areas and regions to bring about highest efficiency. The promotion activities will focus on 6 main areas: Organizing conferences to attract investments into key areas; Organizing conferences and investigations on investment oversea; Providing support for Public Private Partnership programs; Organizing investment promotion program into supportive industries, targeting at partners who have shown strengths in this area such as Japan, US, Thailand, Malaysia,... and specific sectors such as automobile and electronics; Organizing Investment Promotion Program into fishery area and Overall Evaluation of Foreign Investment and Orientation for the period 2011-2015.

93. **Commercial promotion:** The first phase of commercial promotion program in 2011 has been implemented (from late of April, 2011) with 50 projects of 22 commercial promotion organizations and 16 localities, the total of State's support capital is VND 55 billion²⁷. The program aims to encourage the collaboration amongst international commercial promotion programs, to set up an efficient information system for enterprises; to continue to implement the activities in the National Brand Program, facilitate enterprises in promoting, introducing and exporting their products.

Besides, the Ministry of Finance issued Circular 88/2011/TT-BTC dated June 17, 2011 providing financial assistance from the National Budget for national commercial promotion program. Since August 1, 2011, the capital amount mobilized from fund for annual commercial-investment-tourism promotion program will be used to finance export-oriented commercial promotion program. To specify, the budget will support a maximum of VND 700.000 per one enterprise (70% of expense) for "gathering commercial information, conduct market research, building data base of key export market". As for activities to promote geographical indications to international market, enterprises will receive a support of 70% of contractual advertising expense on foreign public media, and 70% of expense to invite foreign media representatives coming to Viet Nam to write articles and spread news to promote Viet Nam's export on magazine, newspapers, television, radio and internet. A

²⁷ Viet Nam Trade Promotion Agency, Ministry of Industry and Trade

support of 70% of expenses will be granted to organize “general promotion activities”. The support level could be up to 100% for those commercial promotion activities which give sound effect to the expansion of the export market, but the total amount will not be in excess of VND 200 million per enterprise.

Infrastructure investment

94. ***Investment on infrastructure:*** In the Socio-Economic Development Strategy (SEDS) during 2011-2020, Viet Nam aims to basically become a modern industrialized country in 2020. Three main breakthrough strategies have been highlighted, which focus on developing a synchronous infrastructure system with modern facilities, focusing on transport system and urban infrastructure. In recent years, the growth rate of electricity sector remains high despite the shortage of electricity. Besides, though the transport system, seaports, airports and urban transport system have better developed, they are still far from satisfying the demand of citizens and the economy. Therefore, more investments should be encouraged in the coming time²⁸.

In fact, logistic cost (such as transportation cost, warehouse...) in Viet Nam is much higher than many other countries. Commercial cost, including logistic cost..., and tariff, are considered as barriers for trading. Each day stuck at the border gate due to the difficulties caused by procedures and infrastructure will cost an enterprise an expense equal to 0.8% of the goods value. It is estimated that if logistic cost could be reduced by 10%, Viet Nam would save an amount equal 2% of GDP since logistic cost of Viet Nam make up for 25% of GDP, while the rate in other countries is just a half compared to Viet Nam’s rate, or just even account for 10% of GDP²⁹.

95. ***Public-Private Partnership (PPP):*** The Government has made some changes in investment policies to adapt with the new context. The diversification of the investment capital sources, enhancement of national competitiveness, and investment in human resources are of the greatest changes.

On November 9, 2010, the Prime Minister issued Decision No. 71/QĐ-TTg on Regulations to govern pilot investment under Public-Private Partnership model, the Decision will come into effect on January 15, 2011. This regulation is considered as a breakthrough in investment field and will be officially implemented in 2011. Currently, the Government has designated the Ministry of Transportation to monitor, select projects to pilot PPP on infrastructure development field. Lach Huyen Port project (Hai Phong) is one of them and now being on the designing stage.

96. ***Export processing zones (EPZs) and industrial zones (IZs):*** As of late December, 2010, 72,000 ha of land have been used for constructing 260 industrial zones. The total amount of land will be increased by 81,000ha as more industrial zones will be constructed or expanded till 2010. Coverage rate is under 50%, in which 173 industrial zones are in operation and 88 are in construction. There are a large number of industrial clusters (ICs) which were approved by Provincial People’s Committee. About 920 industrial clusters located in an registered area of 40,560 ha, however, only 7.51 ha was leased out, account for

²⁸ Speech by Deputy PM Hoang Trung Hai at Viet Nam Business Summit, Ha Noi, May 3, 2011.

²⁹ Report by Mr. Pham Minh Duc, Representative of World Bank (WB), at Seminar on promoting export competitiveness hosted by World Bank in Viet Nam and Viet Nam Chamber of Commerce and Industry (VCCI) on October 11, 2011.

27% the total industrial clusters' land area. Many industrial zones, industrial clusters were built along the main traffic route and closely located to residential areas, resulted in severe traffic congestion and environmental pollution³⁰. Due to the over-hastiness of some local authorities in economic development and investment attraction, a large number of inappropriate industrial zones were planned and put a huge pressure on land resources.

In the current context, it's essential to establish preferential mechanisms and policies to attract enterprises, especially SME. Ministry of Industry and Trade issued Circular No. 39/2009/TT-BTC on December 28, 2009 on implementing regulation on management of industrial complexes under the Prime Minister's Decision No. 105/2009/QĐ-TTg on August 19, 2009. The Government is drafting a decision on policies to support industrial cluster's development. Accordingly, the maximum support will not be in excess of VND 10 billion per one industrial cluster and VND 100 billion per one province. There is no time limitation for disbursement, so each locality can be well-prepared and effectively utilize the located support budget before receiving the new one. Prioritized work items of support include: compensation for site clearance; internal roads, internal drainage system and water treatment, and disposal collection systems. Besides, to increase the filling rate in industrial clusters, the support from national budget for the third industrial cluster will only applied when the first and the second ones have already received the budget and 60% of the total land area have been leased out.

97. **Transport infrastructure:** a modern transport infrastructure is a key factor for the development of competitive economy as well as integration into international market of Viet Nam.

Developing modern transport and urban infrastructure synchronously is one of three innovative solutions which will be implemented in the next five years. The budget needed for transport infrastructure is huge while we have to prioritize for curbing inflation, stabilizing macro economy, ensuring social security and maintaining a moderate growth rate. In this context, the Government has been providing innovative mechanism to mobilize all resources into transport infrastructure development, including mechanism in launching projects and in site clearance.

98. **Electricity power:** According to the national energy development plan, Viet Nam will lose the supply and demand balance of electricity power source in period 2010-2020, turning from an electricity export country to an import one. This is a matter of concern of Viet Nam SME since it isn't reasonable to invest on backup supply and voltage stabilizer system in such small-scale enterprises.

Prime Minister has approved the National Electric Development Plan in 2011 – 2020 period with a vision to 2030 (Decision No. 1208/QĐ-TTg dated July 21, 2011). Accordingly, development of renewable energy resource for electricity generation is prioritized in order to increase electricity production rate from 3.5% in 2010 to 5.6% of total electricity production in 2020 and 6% in 2030.

The Government also aims at using additional power supplies, especially renewable energy. Along with established policies on supporting renewable energy development in recent years,

³⁰ Report on results of land planning and land use in 2001-2010 period conducted by Ministry of Natural Resources and Environment (MONRE)

Prime Minister has promulgated Decision No. 37/2011/QĐ/TTg dated June 29, 2011 on mechanism to support wind power development in Viet Nam to encourage wind power in Viet Nam.

Moreover, in order to encourage SME using energy economically and effectively, Ministry of Science and Technology issued Circular No. 06/2011/TT-BKHHCN dated May 18, 2011 on using and managing credit guarantee fund in financing projects on improving energy effectiveness and efficiency in SME. To prevent electric losses, provinces and localities have conducted training on using electricity effectively. In 2011, Management boards of industrial - processing zones in Ho Chi Minh City have disseminated information on energy efficiency, as well as provided training to energy control officers in enterprises. It is estimated that 3% of total electricity could be saved if enterprises apply energy saving measures effectively (equivalent to 90 billion kwh each year).

Enhancing labor quality

99. As stated above, the Government will revise several investment policies to adapt with the current context. One of the most important shifts is in human resource investment – a “bottleneck” of Viet Nam. Investment in human resource is considered as a key target in Viet Nam’s 2011-2020 Social Economic Development Strategy. In which, investment on skilled human resource and management staffs is of top priority.

The new labor policy comprises of job creation policy, strategy for human resource development, strategy to support labor market development and development orientation of the labor market. Accordingly, Viet Nam considers the development of all market types and socialist market-orientated economic institution perfection as a key measure to achieve socio-economic development, to perfect the legal system and to create a transparent environment that enables the development of a thriving labor market.

The draft of the Law on Labor (revised version) focuses on perfecting regulations on a number of issues regarding: labor contract and related issues; wages and minimum wages; labor safety and hygiene; foreign employees; some policies for female employees; collective bargaining; responsibility of labor union in protecting laborer’s rights and so on. The draft law also supplements new policies regarding overtime working hour, collective labor *agreement*, minimum wages by industry, regulation on temporary closure of enterprise, maternity leave expansion, retirement rights, compensation fund for accidents and occupational diseases, labor outsourcing, housework services, part-time workers and so on.

100. Improving the quality of human resource is also a key factor to help Viet Nam escape the middle income country trap. Viet Nam’s growth cannot merely rely on foreign direct investment FDI and official development assistance ODA, natural resources, large investment projects in stock exchange or real estate investment... but on the value created by citizens and the value generated by domestic enterprises³¹. Given the extensive farming and capital intensive economy, Viet Nam has to spend a large amount of investment to obtain 1% of GDP growth rate while the labor productivity stands still.

101. Decree No. 46/2011/ND-CP (amends and supplements some articles in Decree No. 34/2008/ND-CP – Regulations in recruitment and management foreign employees working in

³¹ Professor Kenichi Ohno, Viet Nam Development Forum (VDF)

Viet Nam) will be put into effect since August 1, 2011. There are no major changes in policies governing the recruitment and employment of foreign labors (skilled, experienced and high-tech labors are highly appreciated) but have become more flexible.

Decree No.46/2011/ND-CP not only extends foreign employee recruitment scope but also specifies regulations on dossiers, procedures on recruiting and hiring foreign employees. Required time to process work permit application is shortened, after three years implementing Decree No.34/2008/ND-CP. It also creates favorable condition for enterprises to employ foreign employees.

Besides, Decree No. 46/2011/ND-CP expands the recruiting and employing scope of foreign employees to ensure the equality among the economic entities. In the previous time, only individual business households operating in the field of health, culture, sports could employ foreign employees. Now anyone who wishes to recruit foreign employees can request for granting work permits as prescribed. Not only does this facilitate individual business households to hire competent and skilled labors but it also enhances the competitiveness of the economy and shows the Government's commitment in creating a fair competitive environment among economic entities.

102. Recently, many centrally governed cities have successfully implemented Directive No. 22-CT/TW dated June 5, 2008 of the Secretariat of the Centre Committee on promoting harmonious, stable and progressive labor relations within enterprises and Decision No.1129/QD-TT dated August 18, 2008 on implementation plan of Directive No.22-CT/TW. In reality, there are many enterprises have done more than just comply with the labor code. They, in cooperation with local authorities and unions at all levels, have had practical policies to care and support employees' living conditions, such as paying timely salary and bonus, taking initiatives in raising the salary, allowances, travelling allowances, housing allowances or building house for employees. This helps strengthen the bond between employees and enterprises, creating a stable and harmonious working relation. However, labor dispute has been increasing in general³². There were 3.620 strikes during 1995-2010, of which 424 strikes occurred in 2010. In the first three months in 2011, 220 strikes occurred³³. Therefore, the Government and enterprises should put more efforts to adequately address the labor's need.

The Government has made a great effort in this issue. To specify, Decision No. 66/2009/QD-TTg of Prime Minister dated April 24, 2009 on some mechanisms and policies to promote housing development for workers in industrial parks and step by step solve their housing problems has been implemented. Measures to control price and stabilize market are also put into practice under Resolution No. 11/NQ-CP dated February 24, 2011 of the Government on controlling inflation, stabilizing macro-economy, and ensuring social welfare; creating favorable working and living conditions for employees is also of the Government's concern.

Enhancing vocational training system is a major concern to both the state management agencies and SME. According to the Draft Vocational Training Strategy period 2011-2020, Viet Nam will reach the population of 99 million by 2020, in which 50 million have jobs. Viet Nam will basically become a modern industrialized country. Therefore, it's essential to have a skilled, knowledgeable workforce and relevant occupational level and structure, which

³² Reach for a new height: Review of Policy to develop Private Enterprises, UNDP and CIEM. *Economia Viet Nam* (2011) (more detail at www.economica.vn).

³³ Board of Legal Policy (Viet Nam General Confederation of Labor)

requires dramatic changes and rapid development in vocational training. As of August 2010, there are 118 vocational colleges (including 29 private institutions), 301 secondary vocational schools (including 95 private institutions); 761 vocational training centers (including 277 private institutions) and over 1,000 vocational institutions nationwide³⁴. However, these numbers are still far lower than the actual needs. To solve the problem, the Government established Joint Circular No. 05/2011/TTLT-BKHDT-BTC dated March 31, 2011, providing guidance in training and fostering human resources for SME. Two following methods will be implemented: (i) directly organize training courses, (ii) select training institutions under the current regulations in training labor for SME.

103. Socializing education has been drawing greater attention from the Government and business community, especially in term of capital funding for education and training sector. The Government has looked for effective measures to narrow the gap between labor supply and demand in the mean time. One of those is to develop the information system of labor market to bridge the existing gap between supply and demand of labor, create more decent jobs, and reduce the "shortcomings" of domestic labor market.

Strengthening legal support

104. The Government has implemented Decree No.66/2008/ND-CP dated May 28,2008 of the Government on legal support for enterprises in 2010 – 2014, which was issued together with Decision No.585/QD-TTg dated May 5,2010 of the Prime Minister. Program 585 is carried out in 2 phases with the total estimated cost of 190 billion dong, in which 170 billion dong is mobilized from the State's budget and the rest is from agencies, organizations and enterprises taking part in the Program. There are 3 projects under the Program, including: Developing law database to support enterprise's operation; providing legal support in certain areas; and, enhancing capacity of agencies and organization that provide legal support to enterprises. The Program also provides training on general legal knowledge on enterprise law for enterprise's leaders; and enhances capacity of enterprise legal officers.

The first phase (2010-2011) will focus on 7 localities, including Can Tho, Dak Lak, Dong Nai, Quang Binh, Tuyen Quang, Vinh Phuc and Ha Noi with an aim to provide regular access to 95% of enterprises in the region with appropriate methods; at the same time, training program on basic knowledge of business legal documents will be broadcasted on mass media.

The second phase will be implemented during 2012 – 2014, aiming at expanding the support to other localities. One of the most important outcomes of the Program is to sustain legal access to general legal knowledge on enterprise law to 80% of SME in economically depressed and extremely depressed areas.

Legal aid for enterprises was also regulated in legal documents, including Joint Circular No.157/2010/TTLT-BT-BTP dated October 12, 2010 of the Ministry of Finance and the Ministry of Justice on guiding the estimation, management, using and balance of the state budget in providing legal aids for enterprises, and Decision No.2746/QD-BTP dated November 22, 2010 on establishing mechanism for the management and implementation of joint legal aid program for enterprises in 2010-2014, etc.

³⁴ General Department of Vocational Training. Ministry of Labor, Invalid and Social Affairs

Capital aid

105. Despite its large proportion (account for 95% over total 500,000 enterprises in Viet Nam), most of SME are in shortage of capital and having limited capacity in capital mobilization for operation and business expansion. Therefore, besides traditional commercial loans (mortgage loans or trust loans), credit guarantee is appeared to be an effective tool for capital mobilization with many positive aspects and received highly appreciation from SME.

In the last few years, lending conditions were significantly loosened. According to a report in 2011 of IFC (an institution of WB), Viet Nam credit ranking has increased from 30th to 15th. Due to the limited capacity in capital accumulation of SME, most of investment capital is from commercial loans mobilized from banks and financial institutions.

However, in the condition of interest rate hike, high capital cost and low profit margin³⁵, every SME should reconsider their business model.

106. Pursuant to Decree 75/2011/ND-CP of the Government on State investment credit and export credit which is effective from October 20, 2011, eligible borrowers (from investment and export loans) are those who invest on projects belonging to categories eligible for investment credit, namely projects on building works to treat wastewater and garbage in urban areas, industrial parks; Projects on building houses to students and low-income earners; projects on building education and training facilities... Investors shall have effective production and business projects and plans, and shall prove their debt payment capability; and financial plans and debt payment plans appraised and loan provision approved by the Viet Nam Development Bank. This is considered as an effective preferential credit source for SME.

107. In the next period, the State Bank of Viet Nam will keep an eye on the market to carry out appropriate measures, as well as control credit growth below 20%. Banks do not have to reach the credit growth rate cap, but should focus on providing loans with preferential interest rate to agricultural, export and support industry sectors.

108. Credit guarantee is used to support SME to borrow loans from commercial banks. Subjects eligible for credit guarantee mostly are SME, in accordance with bank's capacity and enterprise's demand. By applying this method, commercial banks could share all or part of credit risks to the guarantors, therefore they are more willing to provide loans for SME. However, partial credit guarantee could reduce, but cannot eliminate, collateral requirements – which are usually considered as main challenges for SME in getting access to official financial sources.

Up to now, 13 provinces have established Credit Guarantee Fund (CGF), including Tra Vinh, Ben Tre, Yen Bai, Dong Thap, Ho Chi Minh City, Binh Thuan, Ha Noi, Ninh Thuan, Bac Ninh, Ha Giang, Kien Giang, Tay Ninh, Vinh Phuc. Several provinces, namely Thanh Hoa, Hai Phong, Da Nang, Khanh Hoa, Ba Ria – Vung Tau, Vinh Long, Quang Ngai have been preparing for CGF establishment and its mechanism. The total working capital of the fund established in provinces is about VND 575 billion (the highest amount is of Ho Chi Minh City with VND 194.5 billion, the lowest is of Bac Ninh province with VND 21.9 billion). This financial institution seems to bring about little effectiveness in alleviating financial problems of SME since there was only 13/63 provinces having Credit guarantee Fund.

³⁵ Profit on capital production and profit on revenue of non-state enterprises are relatively low, only of 2-3% against average ration of 4-6% of the country

Therefore, the Prime Minister issued Decision No.14/2009/QD-TTg promulgating the Regulation on guarantee for enterprises borrowing loans from commercial banks to make up for shortcomings of CGFs. Accordingly, Viet Nam Development Bank shall provide guarantee for enterprises to borrow loans. This Decision took effect on March 1, 2009 nationwide and helped enterprises to have better access to financial sources, especially SME. After 3 months implemented, several shortcomings were revealed, therefore, the Prime Minister issued Decision No.60/2009/QD-TTg dated April 17,2009 on revising some articles in Decision No.14/2009/QD-TTg. Up to now, VDB has signed guarantee agreement with more than 30 large and prestige commercial banks. As of June 30, 2010, VDB guaranteed for 224 SME to borrow loans from commercial banks with the total borrowing amount of VND 4,108 billion. To the end of December 2010, ADB guaranteed for 1,450 enterprises and issued more than 1,090 guarantee letters with the total amount of 7,200 billion dong.

To promote credit guarantee activities, Prime Minister established Decision No.03/2011/QD-TTg dated January 10, 2011 promulgating regulations on guarantees for loans of small and medium sized enterprises from commercial banks, which took effect since February 25, 2011. In comparison with Decision No.60/2009/QD-TTg and Decision No.14/2009/QD-TTg, Decision No.03 focused more on details and provided several new points, namely: objects eligible for credit guarantee were limited to SME (not for micro enterprises) belonging to 7 sectors; requirements to obtain credit guarantee were tightened up (minimum proportion of owner equity is increased from 10% to 15%; there is no bad debts at any financial institutions at the time requesting for credit guarantee); limitation was set on credit guarantee (a guarantee provided for an enterprise shall not exceed 5% of VDB's paid-up charter capital and total guarantee provided for all SME shall not exceed 5 times of VDB's paid-up charter capital;...)

109. As stated above, the Government is encouraging private sector to get access to ODA³⁶, this will be an effective financial source for SME, besides PPP model.

Improving access to production premise

110. Removing difficulties regarding site-clearance for production is one of six key measures to assist SME set out by the Government in Resolution No.22/NQ-CP. The Government urged People's Committee under central level to review and revise land use planning, to carry out site clearance then leasing to SME or allocate land for construction of SME industrial parks and business incubators.

111. Localities shall publicize land areas for SME, SME industrial parks and business incubators on yearly basis; shall consult and assist SME in finding site for production. Ministry of Natural Resources and Environment shall take lead in preparing land planning bulletins in order to publicize information on land planning to localities and enterprises.

112. In fact, a number of localities have provided support in term of production site for enterprises, namely: Dak Lak (publicized socio-economic development plan and land use plans, completed industrial park planning, prepared land fund and encouraged to construct industrial parks and clusters. Each province, district and city must have at least one industrial

³⁶ Decree No.78/2010/ND-CP of the Government on on-lending of the government's foreign loans and Conclusion No.64-KL/TW dated February 9, 2010 on review the implementation of Resolution 14-NQ/TW (9th Tenure) dated March 18, 2002 on continuing reform of mechanisms and policies and encouragement and facilitation of economic activities of the private sector.

park/small and handicraft industrial park with full infrastructure to lease out for SME looking for production ground); An Giang province (exempted land rental fee for enterprises in 11 years since its operation. A reduction of 30% land use fee would be applied in case the land is allocated or when the land use purpose was transferred); Kien Giang province (one year land rental fee is calculated by 0.5% of the land price by using purposes, which was regulated by Kien Giang People's Committee, the price is fixed for 5 years. Besides, projects located in Phu Quoc district or Ha Tien border economy zone are enjoyed preferential land use price of 50% the regulated one. Land use fee is exempted for 3-15 years base on its location and investment sector)...

Science and Technology support

113. During the last years, Viet Nam has established a number of policies regarding promoting the development of science and technology field in general (Law on Science and Technology, Law on Technology Transfer, Law on Property Right, Law on High Technology.. to name some), as well as encouraged technology innovation to bring about benefit to enhance competitiveness of SME sector, which is considered as the one having lowest competitive capacity among economic sectors.

114. Most of SME have low starting point, some even developed from economic households. Therefore, SME have been facing with considerable difficulties in technology renovation and enhancing competitiveness. The application of information technology is also limited, only 11.55% out of 60% SME using computers have LAN network, and only 2.16% of them having website.³⁷

115. In 2011, the Prime Minister established the National Program on Technology Innovation to 2020 (Decision No.667/QD-TTg dated May 10, 2011) to support SME in applying science into its operations, including: application of information technology; development of information system for enterprise resource management and product promotion; development of database on new technology, advance technology and technology experts; support on establishing science – technology incubators; research, application and production of new products...

To mobilize financial source for the Program, a National Fund for Technology Renovation will be established under decision of the Prime Minister. The Fund will support enterprises, especially SME, in technology selection, perfection, renovation and transfer. Financial sources for technology renovation will also be widened; besides, enterprises are encouraged to establish their own fund for science and technology development.

The Program sets out several targets in period 2011 – 2020 as follow: the number of enterprises renovating technology to increase to 15%/year, of which 5% applies high technologies; as of 2020, 100% of key production enterprises understand and be able to create new technology for goods production; 80% of engineers, technicians, SME leaders are trained on technology management, governance and how to update new technology.

116. Viet Nam has developed several technology incubator models up to now, including: technology incubators in universities (located at Ha Noi University of Technology, Viet Nam National University -Ho Chi Minh City), incubators in enterprises (located at FPT group, Saigon high-tech park- HCMC, Hoa Lac high-tech park...). Recently, Institute of Applied Technology, with the main function of researching and applying technologies in electronic, bio technology, clean technology, energy saving technology fields, was selected to establish a

³⁷ Agency for Enterprise Development, MPI.

science – technology incubator in Ha Noi. To that end, the project will focus on five fields, including biomedical technology, environmental technology, applied photo-electronic technology, information technology, new materials technology.

117. The Government has drafted the Science - Technology Development Strategy toward 2020 with vision of 2030.

118. In 2010, the Prime Minister approved the Program to Support Intellectual Asset Development during 2011-2015 (under Decision No.2204/QD-TTg dated December 06, 2010). The program targets include: To meet 70% of demand of scientific and technological service enterprises and organizations for raising awareness about intellectual property; To meet 70% of demand of universities, scientific research institutions and scientific research and technological development institutions for guiding and supporting the creation of and managing, protecting and developing intellectual assets with respect to research outcomes; To meet 70% of demand of localities for supporting the development of intellectual assets with respect to their specialty products; To meet 50% of demand of enterprises having strategic and specific products with export potential for supporting the registration of intellectual property protection in countries being major and potential markets. The Program has been implemented from 2011 to 2015, Ministry of Science and Technology (MOST) is the main implementing agency, and National Office of Intellectual Property (under MOST) is the standing agency.

Minister of Science and Technology established Circular No.03/2011/TT-BKHCHN dated April 20, 2011 on guiding the selection and management of projects under Program to support intellectual asset development during 2011-2015.

3.1.2 CONCRETE SUPPORT PROGRAMS

Supporting industry development programs

119. Regarding supporting industry development, the Government has promulgated Decision No. 12/2011/QD-TTg dated February 24, 2011 of the Prime Minister on the development policy of some supporting industries and Circular 96/2011/TT-BTC dated July 04, 2011 of the Ministry of Finance on guiding the implementation of financial policy regulated in Decision No. 12/2011/QD-TTg.

120. Under the framework of Viet Nam – Japan development cooperation, Japanese International Cooperation Agency (JICA) has dispatched Senior Volunteers to Agency for Enterprise Development (AED), Ministry of Planning and Investment (MPI) to assist supporting industry in Viet Nam, which is coordinated by SME Technical Assistance Center in Ha Noi (TAC Ha Noi) - directly under the Agency for Enterprise Development. The three-year program aims to support 100 enterprises through 500 improvement activities. It is supposed to facilitate 30 enterprises to have a deal or to increase sales with Japanese enterprises (particularly in Ha Noi area, 70 enterprises gets improvement through 350 activities, in which 20 enterprises is to have a deal with Japanese ones). In Ha Noi, after one year implemented, the program has supported 19 enterprises (exceeded the target of 17 enterprises), carried out 101 Kaizen activities (continuous improvement), completed in-depth support for 11 enterprises (more than 2 times/month), conducted the first supporting survey in 57 enterprises, and the second survey for in enterprises.

The Scheme on Implementation of Agreement on Technical Barriers to Trade (TBT) during 2011-2015

121. The Prime Minister has approved the Scheme on implementation of the Agreement on Technical Barriers to Trade during 2011-2015 (under Decision No. 682/QD-TTg dated May 10, 2011) on supporting the implementation of macro policies on socio-economic development and protect the legitimate rights of consumers. The Government will conduct a separated project under the direction of MOIT to support enterprises in applying technical measures to improve production efficiency and boosting import & export.

One of four main components of the Scheme is to support enterprises in applying technical measures and to improve the efficiency of production, business and import, export promotion. To specify: To research, disseminate and implement supporting measures to help enterprises overcome international technical barriers, especially WTO regulations; To develop enterprise advising channel on newly established or revised technical barriers of Viet Nam and other countries; To establish an advisor network to answer enterprise's queries on technical barriers and how to overcome these barriers of certain products; To develop consulting services on developing and applying relevant technical standards and regulation as well as conformity assessment; To apply advance management systems; To test, measure, assess, evaluate, appraise and supervise quality and environment; To implement programs on productivity enhancement, property right development, technology innovation, energy saving to support enterprises.

122. To fulfill these tasks, the Prime Minister has designated relevant ministries and agencies to launch six projects, including projects on legal framework completion; supporting enterprises in applying technical measures to improve production efficiency, business and import, export promotion; maintaining and enhancing the capability of TBT Board and Viet Nam TBT network...

Technology Renovation program

123. The Prime Minister issued Decision No.667/QD-TTg dated May 10, 2011 on approving National Program on Technology Innovation to 2020, in which "Support SME to apply technology" is a main focus. Also in 2011, the Prime Minister approved orientations, objectives and tasks of science and technology during 2011-2015 (stipulated in Decision No.1244/QD-TTg dated July 25, 2011). In 2010, with an aim to support SME in enhancing competitiveness in goods production and processing and raising capacity in international market integration, Ministry of Science and Technology (MOST) and Viet Nam SME Association signed cooperation agreement on "Supporting SME in applying modern technology, technology innovation, productivity and quality enhancement". The Program supported SME in technology innovation, by applying and transferring modern technology, improving productivity, goods quality and competitiveness, applying advanced quality control system, as well as appropriate tools for productivity and quality improvement. The Program also proposed measures: to support SME in applying science research's result in production and technology innovation to reach sustainable development; to effectively use science – technology development fund in SME to promote science research and technology renovation in enterprises; to develop science & technology services, standards, technical regulations to support SME in technology transfer.

3.1.3. ASSISTANCE TO SME DURING THE GLOBAL ECONOMIC RECESSION

124. The global economic recession has made a great influence on Viet Nam socio-economic development; enterprises, especially SME, have been facing with significant

difficulties. In this situation, the Government has implemented various supporting measures to help enterprises to overcome obstacles, stabilizing and expanding production. Administrative procedures on market entry have been simplified, regulations have been loosened to promote SME growth and business expansion, including direct measures such as tax, interest rate and human resource support.

In 2010, the Government issued Resolution No.18/NQ-CP dated April 6, 2010 on measures to stabilizing the macro-economy, preventing high inflation and reaching an economic growth rate of around 6.5% in 2010. In 2011, Viet Nam economic growth in the first months of 2011 was ceased, reaching 5.57%, presenting a decrease compared to that of 2010 and to the set target due to serious global economic downturn. The Government established Resolution 11/NQ-CP dated February 24, 2011 on key measures to controlling inflation, stabilizing macro-economy, and ensuring social welfare.

Tax support

125. In the recent time, SME have been facing with numerous difficulties due to high inflation, increasing input price, high interest rate and slow economic growth. The Government has carried out effective measures to curb inflation and reduce total demand. Moreover, appropriate tax reliefs were also applied to support enterprises. The exemption, reduction and deferral of corporate income tax (CIT) have indirectly provided capital support to enterprises since they do not have to mobilize an amount of capital from banks with high interest rate.

126. The Government has offered various supporting packages to enterprises since 2009 when enterprises have encountered considerable difficulties due to global crisis and high inflation. Tax deferral was offered to several industries and services as part of the measures. The total of deferred tax in the whole period is estimated at VND 10,000 billion.

Continue implementing tax relief policy, the Prime Minister signed Decision No. 12/2010/QĐ-TTg on February 12, 2010 on extending enterprise income tax payment periods to help enterprises overcome fiscal challenges. Ministry of Finance issued Circular No. 39/2010/TT-BTC on March 22, 2010 on guidance on implementing this Decision. On July 2, 2010, General Department of Taxation issued Circular No.2366/TCT-CS guiding on CIT reduction for SME under Resolution 30/2008/NQ-CP in more detail. Accordingly, the CIT payable which is eligible for 30% reduction in 4th quarter of 2008 and CIT payable of 2009 is calculated on total income from SME's business operation, including incomes derived from land use right transfer, from property transfer and other incomes.

On April, 2011, The Government established Decision No. 21/2011/QĐ-TTg of the Prime Minister on extending CIT corporate tax payment of SME. The decision is part of the Government's effort to ease difficulties of SME, contributing to boost economic growth in 2011. Accordingly, eligible SME are allowed to extend the payment of their 2011 CIT for one year from the usual payment due date as governed by the Law on Tax Administration. And according to Circular No.52/2011/TT-BTC dated April 22, 2011 on guidance for implementing Decision No. 21/2011/QĐ-TTg, the extension time for CIT payable is one year from due date, longer than that of 2010 (which provided 3-month extension), however, subjects eligible for such tax incentive is also narrowed down. The total deducted amount this time is about VND 13,300 billion with about 200,000 SME gaining benefit from the policy, accounting for 60% of active SME in Viet Nam. To be eligible for tax deferral under Decision 21, enterprises must satisfy requirements on capital or number of laborers as regulated. The deferred amount will be based on temporarily calculated payable tax amounts for every quarter and final tax payable in 2011 (including the amount from 2010 which would

be paid in 2011). Tax deferral and tax reduction are considered as a comprehensive measure to support enterprises; however, it should be prioritized for those who need it the most. In specific, entities which are not eligible tax relief are those to be ranked as level I under Joint Circular No.23/2005/TTLT-BLDTBXH-BTC (mostly are SOEs), SME categorized in special level, and subsidiaries that the parent company is not SME and holds over 50% equity of the subsidiary.

127. The first session of XIII National Assembly (August, 2011) approved Resolution on CIT and PIT reduction, in which: (1) Reduce 30% of payable CIT amounts in 2011 of SME; (2) Reduce 30% of payable CIT amounts in 2011 of labor intensive enterprises engaged in manufacturing, out-sourcing and processing fields.

Support on interest rate

128. Pursuant to Decision No.2072/QD-TTg dated December 11, 2009 of the Prime Minister on interest rate subsidy for medium and long-term loans for corporate and individual borrowers in 2010 for business investment, on December 31, 2009, the State Bank of Viet Nam (SBV) issued Circular No.27/2009/TT-NHNN stipulating guidelines on the execution of the aforesaid decision. Accordingly, subsidies will be offered to long- and medium-term loans for the purpose of funding agriculture and forestry, fisheries, the processing industry, salt, and science and technology. Borrowers wishing to purchase agro-forestry and fishery products will also be eligible. The subsidized rate is 2% per annum. out of a loan, calculated on the actual loan amount and duration. The maturity of subsidized loans is 24 months, starting from the date of loan disbursement between January 1st to December 31, 2012 for the loan contracts signed before and after January 1, 2010. This scheme will be applied from January 1, 2010 to December 31, 2012.

Previously, SBV issued Circular 21/2009/TT-NHNN regarding interest rate subsidies. Accordingly, SBV extended the subsidy of 4 per cent for medium- and long-term loans for individuals and enterprises to December 31, 2011.

129. In an effort to help rural enterprises and farmers to overcome difficulties, the Prime Minister issued Decision No.497/QD-TTg dated April 17, 2009 on interest rate subsidy to purchase agricultural equipments and materials and home building materials and Decision No.63/2010/QD-TTg dated October 25, 2010 on supportive policies to reduce postharvest losses for agricultural products and aquatic products. These programs are part of a move designed to push for industrialization and modernization in rural areas. Under the program, eligible subjects could be offered the maximum preferential interest rate of loans equivalent to 100% value of made-in-Viet Nam machineries and equipments. Eligible subjects would not have to pay any interest during the first two year of their loans and enjoyed a preferential rate of 50% from the 3rd year forward. Individuals and enterprises may access the support via institutions belongs to Bank for Agriculture and Rural Development.

In 2011, Ministry of Finance issued Circular No.65/2011/TT-BTC dated May 16, 2011 providing guidance for support for capital lending interest rate and grant for interest rate difference due to implementation of support policy in order to reduce loss after cultivation of agricultural products, aquatic products.

Support on human resources

130. Ministry of Labor, Invalid and Social Affairs promulgated Official Dispatch No. 2620/LDTBXH-QLLDNN on guiding the implementation of the project on support employees working abroad in 2011 to some localities and enterprises providing labor oversea services. Labors working overseas under 2011 contract will receive financial aid for tuition fee of foreign language, vocational training and knowledge enrichment under the contract

signed between Department of Labor, Invalid and Social Affairs and labor export enterprises. Financial aids for the expense of travelling and procedures (passport, visa, health checking, and legal profile) are given to laborers via enterprises which engaging in the program.

131. Employees' wages and income have been increased followed the Government's pathway on minimum wage adjustment. However, employees have still faced with many difficulties, especially those working in industrial zones, processing zones with low income due to the increasing price of essential goods. Therefore, union trade organizations at all level have proactively taken some supporting measures to help employees settle down. In term of labor's rights protection, union trade organizations have examined and supervised legal compliance of hundreds of enterprises, proposed recommendation to competent authorities at all level to consider and address existed difficulties in the policies. Federation of Labors examined 28 enterprises in Ba Ria-Vung Tau Province, 10 in Lam Dong, Ca Mau, 30 in Bac Ninh, 11 in Khanh Hoa and 98 in Binh Duong... The results revealed that many enterprises have not fully complied with the Labor Code. The Union has asked enterprises to improve the situation, ensuring the rights of employees. In many localities, the unions have encouraged enterprises to diversify their supporting policies. In Ho Chi Minh city, Ho Chi Minh City Federation of Labor has directed unions to urge leasers not to increase house-renting fee and maintain the electricity sale price equal to prices applied for households. Nearly 54,000 leasers having more than 350,000 houses for lease agreed to follow the proposal, more than 350,000 laborers have benefited from the program.

Other supports

132. Along with SME supporting policies on tax, interest rate and labor, the Government promulgated support policies in other fields including SI development, investment in agricultural, rural area and science technology ... to boost investment and business.

- ❖ The Prime Minister promulgated Decision No. 1914/QĐ-TTg dated October 19, 2010 on approving Project on “Solutions to increase quality, growth, efficiency, and competitiveness of the economy”. The principal goal of the project is to improve business competitiveness, and truly put Vietnamese brands on the regional as well as global map.
- ❖ Seeking for SME supporting measures and policies: the ASEAN Business and Investment Summit 2010 (ASEANBIS) held on October 26-28, 2010 in Ha Noi emphasized the urgent demands for more practical SME supporting policies.
- ❖ Encouraging investment in agriculture and rural areas:
 - ✓ Decree No. 61/2010/ND-CP dated April 06, 2010 of the Prime Minister on policy to encourage enterprises to invest in agriculture and rural areas; Circular No. 84/2011/TT-BTC dated June 16, 2011 of Ministry of Finance on guiding some financial policies to encourage enterprises to invest in agriculture and rural areas under Decree No. 61/2010/ND-CP.
 - ✓ Decision No. 23/QĐ - TTg dated January 6, 2010 of the Prime Minister on approving project on Rural Commercial Development in 2010 – 2015 period and Orientation towards 2020. The project aimed to stimulate rural consumption and to increase the consumption of domestic goods. The project introduced models for rural commercial development including: develop commercial structures in communes, towns including: network of local markets, individual and household business, the business network of cooperative trade, manufacturing-processing enterprises.

- ❖ Decision No. 119/QD-TTg dated January 18, 2011 of the Prime Minister on approving Project of rural Information-Technology development period 2011-2020. The project aimed to develop synchronous and modern information-technology network and infrastructure. In the scheme, enterprises are eligible for preference loans from Viet Nam Public Utility Telecommunication Service Fund to invest in information-technology infrastructure in rural areas.
- ❖ Improving the competitiveness of Vietnamese products and services, especially key export products; Decision No. 2204/QD-TTg dated June 12, 2010 on approving Program on assisting the development of intellectual property during 2011 – 2015.
- ❖ Decision No. 175/QD-TTg dated January 27, 2011 of Prime Minister on approving the General Strategy for Service Sector development towards 2020, aiming to enhance the sector’s competitiveness and standard; to exploit potential service areas which have high added value and competitiveness to support industrialization and modernization process and to ensure sustainable development and the shift into the knowledge- based economy.
- ❖ Decision No. 712/QD-TTg dated May 21, 2010 approving National Program on Improvement of Productivity and Quality of product and goods of Vietnamese enterprises through 2020.
- ❖ Continuing the implementation of Vocational training for rural labors: Program under Decision No. 1956/QD-TTg dated November 27, 2009 of the Prime Minister, and Decision No. 962/QD-TTg dated June 05, 2010 on Establishing National Steering Committee of Vocational Training for Rural Labor program.
- ❖ Decision No. 176/QD-TTg dated January 29, 2010 of the Prime Minister on approving Scheme on Development of Hi-tech Agriculture through 2020. The scheme’s objectives are, by 2015, each province in key economic regions will have 3-5 enterprises and 2-3 agricultural production areas that applies high technology; by 2020, the number will up to 7-10 and 5-7, respectively. During period 2016-2020, hi-tech applied agriculture production will be comprehensively developed.
- ❖ Supporting some key industries such as textile, footwear production: Circular No. 32/2010/TT-BTC dated September 03, 2010 on guiding the financial mechanism in implementing Program on Human Resource Training for Textile Sector”; Decision No. 6209/QD-BCT dated November 25, 2010 on approving General Plan on Vietnamese Footwear Development towards 2020, with the vision to 2025.

3.2. INTERNATIONAL COOPERATION ON SME DEVELOPMENT

Multilateral SME development cooperation

133. Acknowledged the increasing role and contribution of SME, a number of meetings, conferences to improve SME’ quality and capacity have frequently been organized by many multilateral organizations namely Asia-Pacific Economic Cooperation Forum, (APEC), Organization of Economic Cooperative Development (OECD), Asia-Europe Meeting (ASEM), and Association of Southeast Asian Nations (ASEAN). Besides official events, there are a number of initiatives and events designed for business community.

134. During the past time, international cooperation for SME development in Viet Nam generally focused on: (i) exchanging and sharing information and experiences on SME

development; (ii) building up the action plans, strategies and policy framework for SME development in the region; (iii) developing and implementing development projects and capacity building for SME in member countries.

135. In the framework of APEC and ASEAN cooperation on SME, member countries and economies agreed to adopt a common cooperation plan as well as strategies to encourage the development of this sector.

136. ASEAN is one of the most populated regions in the world and possessing a dynamic, favorable environment for SME to operate and develop. On the other hand, SME are also considered as the backbone of ASEAN economies and their development is a key driver to promote sustainable economic development. In general, SME make up for 95% in the number of enterprises and create about 50-85% domestic jobs in many ASEAN member countries. Moreover, SME contribute for about 30-35% of GDP and about 19-31% of total export turnover.

In August 2010, ASEAN Economic Ministry (AEM) ratified the ASEAN Strategic Action Plan for SME development period 2010-2015; orientation for regional cooperation to promote SME development was also approved. The plan mapped out tasks set out by ASEAN Economy Community (AEC) and the operation plan of SME Working Group (SMEWG). The action plan includes regional commitments on SME development and their integration opportunities when a common market and production atmosphere are shaped in ASEAN. To that end, ASEAN will promote SME development by offering better access to financial sources and technology, enhancing export capacity, improving the application of IT solutions and innovation as well as developing human resources. As a part of the plan, the ASEAN SME Innovation Award would be organized for 20 ASEAN enterprises. Each member nation can nominate their 5 most innovative enterprises.

Accelerating the establishment of ASEAN Economy Community (AEC) in 2020: SME will gain enormous benefits from the scale expansion, which brings about greater productivity, lower production cost and more competitive price. The creation of a chain of linkage for all enterprises in ASEAN is expected the most since it could make greater contribution to the common development and prosperity of the region.

In August 2007, ASEAN Economic Ministers agreed to establish the ASEAN Experts Group on Competition (AEGC) as a regional forum for the discussion and cooperation in competition management. The first AEGC meeting in 2008 and other meetings after that focused on building competition-related strategies and introducing best practices of each member country; conducting the ASEAN Regional Guidelines on Competition Policy, and summarizing the Handbook on Competition Law and Policy in ASEAN for Business. These actions aim at creating an equal playground and fair competition culture to boost economic cooperation in the long run.

In August 2010, the AEM Meeting 42 agreed to set up ASEAN SME Council. The Council offers opportunity for Asean SME leaders and representatives of private sector to meet each other and provides information for ASEAN economic ministers to develop policies that supporting SME development. After that, in June 2011, ASEAN agreed to establish the SME Advisory Council Board with an aim to leverage the role and contribution of SME to the regional economy. The SME Advisory Council Board will research and introduce

development strategy for SME, consulting ASEAN economic ministers on the implementation of these strategies and identifying priority areas for SME Working Group. The establishment of Advisory Board marks the first step to leverage the role of SME and helps to find out comprehensive measures to stimulate their development. The Advisory Board considers SME as a new driver to boost economic growth in the region.

Since 2003, ASEAN Business Advisory Council (ASEAN-BAC) has organized annual ASEAN-BIS coinciding with the ASEAN Summits. After 6 meetings, ASEAN-BIS is considered as a great destination for enterprises from within and outside ASEAN to network, exchange information and look for new investment opportunities. ASEAN-BIS 2010 themed “Towards the ASEAN Community: From Vision to Action” in Ha Noi gathered more than 500 domestic and foreign enterprises, business associations.

However, budget remains a challenge for these SME assistance programs. Up to now, some initiatives were carried out basing on self-financing or ASEAN-help-ASEAN model. To that end, a member country could mobilize their own resources or asking other member countries to take part in the implementation of SME assistance programs. ASEAN SME Working Groups have expanded their consultancy to other SME agencies of ASEAN+3 (China, Japan and Korea) and to Japan. These activities have encouraged the exchange of best practices and cooperation in some SME projects and conferences.

137. SME play an essential role in the economy of APEC member countries: SME make up more than 95% of the number of enterprises, contributing to 30%-60% of GDP, utilizing 40% - 80% of the labor force and contributing 35% of total direct export turnover. Within APEC cooperation framework on SME, annual meeting of APEC Financial Institutions Dealing with SME is one initiative followed the signing of a Memorandum of Understanding (MOU) on Cooperation among APEC financial institutions which finance SME on September, 2003. The meeting is held annually before APEC Finance Ministers Annual Meeting. This MOU’s main objective is to call for the participation of member countries in enhancing cooperation/assistance activities on technology and finance among 13 signed members to promote SME’ development. On July 2010, the 7th annual APEC Financial Institutions Dealing with SME Conference (APEC SME 2010) was held in Kuala Lumpur (Malaysia), which once again highlighted the important role of SME in the national economic development and emphasized the strong, effective collaboration and assistance between APEC Financial Institutions and SME.

On October, 2011, the International Trade Administration (ITA) of US Department of Commerce collaborated with Viet Nam Ministry of Science and Technology to hold conference focusing on business ethics for SME in construction and mechanical engineering sector. The conference gathered more than 40 delegates from 17 economies, and helped SME to raise their awareness on fair competition, anticorruption issue and to guide them voluntarily follow these business ethics. After the conference, the Working Group adopted the draft “Ha Noi regulations for voluntary business ethics in construction and mechanic engineering sector”. These draft regulations are being examined by SMEWG and once approved, they will be presented at the APEC Senior Officials' Meeting in Honolulu (Hawaii, US) in late 2011. One of the three priorities of APEC 2011 is economic integration within the region in which focuses on improving the operation of the global supply chain and enhancing SME’s participation into this system.

SMEIC established in 2006 after Daegu Initiative aims to enhance SME' capacity and focuses on exchanging experiences in doing business creatively and creating the platform for international cooperation. Annual meetings, seminars and research projects... are part of SMEIC activities.

138. Under the direction of Ministry of Science and Technology, the Agency for Enterprise Development and other donors, which rotate every six months, act as co-chairs of the "SME Promotion and Private Sector Development Partnership Group" in Viet Nam, in short called "SME Partnership Group" or "SMEPG". SMEPG is a joint initiative to establish a cooperation framework between Vietnamese Government and the donor community with an aim to strengthening the effectiveness of ODA in the field of SME promotion and private sector development. In recent years, the members of SME Partnership Group have considerably increased, including representatives from bilateral and multilateral donors as well as of non-governmental organizations namely: Austria (Wallon region), Canada, Denmark, Finland, France, German (GTZ, KfW), Italy, Japan (JICA, JBIC), Holland (SNV), Norway, Sweden, Switzerland (SDC, SECO) and the United State of America (USAID), Asian Development Bank (ADB), Europe Union, International Finance Corporation, Mekong Private Sector Development Facility (MPDF), International Labor Organization, United Nation Development Program (UNDP), United Nation Industrial Development Organization (UNIDO), World Bank,...

139. Besides, international financial institutions such as World Bank (WB), Asian Development Bank (ADB)... (6 Development Banks Group) have carried out a series of programs to support SME in enhancing their competitive capacity, technological innovation as well as improving their business management, leadership skill and employees' working skills.

For example, Mekong Project Development Facility (MPDF), a multi-donor program and coordinated by International Finance Corporation (IFC) – a World Bank Group member, was established in 1997 to stimulate the establishment and development of SME in Viet Nam, Cambodia, and Laos. Since its establishment, MPDF has gradually decreased enterprise-level supports and expanded the program's scope to create a favorable environment for business and categorizing business activities into 4 areas: financial market, agricultural business, tourism and textile/ handicraft.

Role of Viet Nam in SME Multilateral Cooperation

140. Viet Nam is an important entity with ever-growing role in the ASEAN community. The country is one of the four key members of ASEAN and is the one initiating the idea to build the ASEAN socio-cultural community. As one of the three pillars of the ASEAN Community, the ASEAN Economic Community (AEC) is being developed based on the initiative given by Viet Nam. Viet Nam has been proactively making contribution to build the ASEAN Economic Community- AEC. Specifically, Viet Nam is one of the four countries that have had the highest rate of completion of commitments in AEC Roadmap. Being an ASEAN member for 15 years, Viet Nam has been making great efforts to achieve the goal of building the ASEAN Community. Holding the 2010 Chairmanship of ASEAN, Viet Nam played a key role in giving directions for cooperation and operation of ASEAN for the year 2010. As a coordinator of the ASEAN roadmap for logistics services, Viet Nam successfully organized the Business Forum on Logistic Services during the ASEAN Economic Ministerial Meeting held in August 2010 and the ASEAN Electronics Integration Forum.

141. Beside fully complied with APEC's obligations, Viet Nam is leading in preparations for the assessment of outcomes of APEC's Trade Facilitation Action Plan and prepare next steps for this plan. In addition, Viet Nam is the first APEC member to have the idea of organizing public – private dialogue on trade facilitation. Recommendations contributed from enterprises have helped Viet Nam and other APEC members to have various significant initiatives for the second APEC's Trade Facilitation Action Plan and to raise the program to a higher level. APEC is considering a joint action plan on this issue and developing measures for capacity enhancement and closer co-ordination in the private sector.

142. Viet Nam has actively participated in programs/ projects of multilateral organizations, especially the World Bank and the Asian Development Bank of which Viet Nam is a member. Flexibly and creatively applied programs and projects are precious practical lessons for countries in the region and in the world.

Viet Nam has made significant contribution to the success of ADB's 44th Annual Meeting in 2011³⁸. One of the programs that emphasized Viet Nam's role in the framework of the Meeting this year is the "Viet Nam Day Program". This program is highly appreciated by international friends, especially the Viet Nam Business Summit, which gathered more than 800 participants who are policy-makers, scholars, leaders of financial- banking corporations, representatives from large domestic and foreign companies.

Viet Nam and the World Bank has reviewed the cooperation relationship over the past 35 years and working out on a co-operation direction for the next period.

143. Apart from multilateral cooperation, Viet Nam also takes part in other bilateral cooperation on SME with several nations and economies.

144. However, there still exist limitations in international cooperation on SME. The effectiveness of the cooperation largely depends on commitment of the two parties, Viet Nam's leader role, staff's competency, and financial resources.

Donors of SME development in Viet Nam

145. The cooperation relations between Viet Nam and donors were restored in 1993. Total official development assistance (ODA) is USD 47 billion. Currently, Viet Nam has 51 donors with regular ODA programs, 28 of whom are bilateral donors and 23 of whom are multilateral ones³⁹. Most of the donors have medium-to long-term plans on cooperation with Viet Nam. In fact, SME development in Viet Nam is often integrated in projects or programs on development of industry/ agriculture and infrastructure, poverty reduction or programs to

³⁸ Closing remark of ADB Chairman Haruhiko Kudora at the Meeting on May 6, 2010 in Ha Noi.

³⁹ a) Bilateral donors: Iceland, Britain, Austria, Poland, Belgium, Canada, Kuwait, Denmark, Germany, the Netherlands, South Korea, Hungary, Italy, Luxemburg, the US, Norway, Japan, New Zealand, Australia, Finland, France, Czech, Spain, Thailand, Sweden, Switzerland, China, Singapore.

b) Multilateral donors:

- *International financial institutions and funds*: the World Bank (WB), the International Monetary Fund (IMF), the Asian Development Bank (ADB), the Nordic Investment Bank (NIB), the Nordic Development Fund (NDF), The OPEC Fund for International Development (OFID), the Kuwait Fund;

- *International and intergovernmental organizations*: the European Commission (EC), United Nations High Commissioner for Refugees (UNHCR), the United Nations Fund for Population Activities (UNFPA), the UN Industrial Development Organization (UNIDO), the United Nations Development Programme (UNDP), the Joint United Nations Programme on HIV/AIDS (UNAIDS), the United Nations Office on Drugs and Crime (UNODC), the United Nations Capital Development Fund (UNCDF), the Global Environment Fund (GEF), the United Nations Children's Fund (UNICEF), the International Fund for Agricultural Development (IFAD), United Nations Educational Scientific and Cultural Organization (UNESCO), International Labour Organization (ILO), Food and Agriculture Organization of the United Nations (FAO), the World Health Organization (WHO).

support policy and institutional development. SME development is related direct or indirect to these programs' or projects' components. Total ODA pumped directly to SME development in the period 2006-2010 is USD 400 million.

146. The Agency for Enterprise development, under the Ministry of Planning and Investment, assumes the main responsibility for SME development, has made remarkable effort to persuade the Government to give more aid for private sector and SME development and calling for support from members of SME development partnership group (SMEPG) and other donors. Vietnamese SME, in turn, have proved their quick recovery from the economic downturn, facilitating economic growth and making contribution to both employment and income.

147. Donors will continue to assist SME development in Viet Nam mainly in the following fields:

- ❖ Enhancement of public capacity in facilitating innovation for SME;
- ❖ Policy consultancy to support regulatory and policy reforms towards favorable business environment or the private sector and SME;
- ❖ Training and assisting SME development to improve production capacity, competitiveness and accessibility to resources such as finance, land, and labor, etc;
- ❖ Enhancement of SME' accessibility to the international market by providing better access to industrial standards;
- ❖ Cooperation with the private sector and the Government for financial aids;
- ❖ Assistance in making and implementing policies - especially in building a system connecting research, product development and business operations;
- ❖ Focus on manufacturing, supporting industries, and tourism;
- ❖ Promotion of SME development in rural areas;
- ❖ Development of small-scale infrastructural works to support SME development (eg.: traffic infrastructure);
- ❖ Connection of systems with activities of donors.

148. The Government of Viet Nam in co-ordination with donors has conducted a number of projects to support SME development. Here are some main donors:

149. **The UN Industrial Development Organization (UNIDO)** (one of the largest donors of Viet Nam in SME development). UNIDO gives priority to the following fields to support SME development:

- ❖ Development of industry in rural areas to create jobs and generate income, reducing poverty;
- ❖ Sustainable industrial development, using environment-friendly technology and improving efficient use of energy;
- ❖ Creation of favorable conditions for Viet Nam to take part in UNIDO's programs as well as other international activities.

150. **DANIDA** (Danish International Development Agency): The SME development program for 2011-2013 with the target of "Improving competitiveness of non-state businesses in export-oriented business sectors by focusing on growth and employment". The program

will promote continued economic growth of Viet Nam which depends largely on the private sector.

151. **The Asian Development Bank (ADB):** the SME development program has provided a favorable environment for SME development. Activities in progress include assistance in terms of legal framework, regulatory co-ordination, reforms of business registration procedures, and licensing procedures, and improvement of accessibility to financial resources and land uses.

152. **The International Finance Corporation (IFC):** The program on supporting economic development of the private sector focuses on improving business environment via Business Forums to encourage dialogue between the public and private sector and providing advisory services for SME. Regarding investment activities, IFC provides support to the private sector via direct investment into financial institutions and enterprises. In addition to programs on investment environment and financial accessibility, IFC has initiated various new projects in Sustainable environment and society field.

153. **Italia** has been a long-lasting partner of Viet Nam in SME development and promotion.

154. **Japan International Cooperation Agency (JICA)** has organized a large number of projects on supporting SME development in Viet Nam. JICA is currently speeding up programs on enhancing capacity of SME operating in supporting industries in Viet Nam for the period 2010-2013. A typical example is the project on strengthening the public function in SME development.

155. Activities in the projects help improve business environment for and the competitiveness of Vietnamese SME.

Strengthening cooperation activities

156. It can be said that 15 years of participation in regional as well as international cooperation on SME has brought Viet Nam a lot of opportunities to exchange experience in SME development among countries. This is of significance in the context of limited SME development assistance and the lack of experience as well as practicable measures to the issue. International assistance programs and projects have played an extremely important role in improving business environment and accessibility to resources and international integration. SME management capacity of state authorities as well as SME' capacity has been strengthened considerably. Plans and policies on SME development have shown positive improvement.

157. However, there have been limitations on SME development in Viet Nam such as incompetent officials, sluggish support from the Government, the limited state budget, and the lack of government effective interventions, etc. In order to make international cooperation on SME development of Viet Nam more effective, the following solutions should be heeded:

- ❖ Complete the organization and management of international assistance:
 - ✓ Improve and heighten the role and co-ordination effectiveness of the state authorities responsible for SME (the Agency for Enterprise Development, the Ministry of Planning and Investment – which are key agencies for SME development);
 - ✓ Improve the structure and capacity for the state authorities in charge of SME, including strengthening the structure and human resources for supervision, control and assessment of the implementation and management of international

- cooperation programs or projects on SME development;
- ✓ Enhance accountability, transparency and activeness in management and implementation of international cooperation programs or projects on assisting SME development and responsibilities of the participants;
- ✓ Strengthen commitment of the governing bodies and other agencies taking part in international cooperation programs or projects on SME development;
- ❖ Enhance capacity:
 - ✓ Raise awareness on the importance of international cooperation on SME for agencies from the central to local levels;
 - ✓ Enhance capacity of implementing agencies nationwide;
 - ✓ Enhance capacity of staff and officials working in SME development (language, qualification);
 - ✓ Ensure adequate resources such as corresponding capital, human resources, commitment, etc for cooperation activities as well as well as the sustainability of international cooperation projects or programs on SME;
 - ✓ Follow strictly regulations on supervision, control, assessment and reports of project implementation.
- ❖ Promote cooperation with development partners and concerned agencies:
 - ✓ Promote cooperation with development partners and concerned agencies in the current frameworks such as the Joint Portfolio Performance Review (JPPR), the Aid Effectiveness Forum (AEF), and the Strategic Partnership Group, etc.;
 - ✓ Ensure collaboration among state authorities, organizations and enterprises in regional as well as international operation on SME;
 - ✓ Continue to take part in and attract other agencies and organizations to activities, meetings, forums, programs or projected related to SME;
 - ✓ Expand bilateral and multilateral cooperation in order to improve capacity of agencies promoting SME development and improve the quality of SME development.
- ❖ Keep information publicized and transparent: Disseminate information and documents pertaining to international cooperation projects or programs on SME via websites of the ministries and local agencies.

3.3. CURRENT CONSTRAINTS AND NEEDS FOR SUPPORT

158. SME' significant growth in both number and quality reflects the sector's potentials for further development. However, such growth is not sustainable due to persistent constraints which are very typical of the SME sector.

For the first 9 months of 2011, up to 48,704 enterprises had gone out of business. Particularly, over 5,800 had gone into dissolution, 11,421 had been out of business, and 31,477 had stopped paying taxes but had not declared bankruptcy yet. The rest 60% SME with declining revenues was managing their business by reducing the labor force⁴⁰. In August, 2011, employment was decreased, leading to a decrease of 60-70% in income of

⁴⁰ The Ministry of Planning and Investment

traditional handicraft villages; revenues of Southern traditional handicraft exporting enterprises decreased by 50%. For the first 8 months, a large number of handicraft shops in the North were closed in 3/8 months in order not to keep too high levels of inventories.

Some main constraints on SME include:

- ❖ Inconsistent policy system, unapproachable to a number of enterprises
- ❖ Weak competitiveness
 - ✓ Technological obsolescence, scattered allocation of enterprises
 - ✓ Unskilled labor
 - ✓ Weak management capacity
 - ✓ Impacts of international economic integration
 - ✓ Lack of connection and cooperation among enterprises
- ❖ Obstacles to accessing resources like finance, capital, premises, technology, highly-qualified labor, etc.

159. Those constraints and obstacles have hindered the development of SME in recent years. They are unfavorable factors that handicap the development progress of SME in the market economy oriented toward global economic integration.

Weak competitiveness

160. Vietnamese SME are growing in quantity but not in quality. Most enterprises have small scale and limited amount of capital. Their productivity is still low while production costs remain high, leading to high product costs. Vietnamese products have much lower returns compared to those produced by some countries like Thailand and Malaysia. For instance, even though Viet Nam is ranked second in rice production, only after Thailand, rice's prices are typically lower than those of the US and Thailand, of USD 80-100/ ton to be specific. There is just a little difference in rice production costs of Viet Nam and Thailand but returns on rice production of Viet Nam only equals to 65.1% returns on rice production of Thailand. Rice is exported periodically without any market forecasts, leading to loss of rice value. Rice produced in Viet Nam has not had its own trademark or has been without any geographical indications while only a few enterprises supply rice to high quality market segments. Viet Nam stands second in coffee exporting, only after Brazil. Nonetheless, coffee export turnover is only ranked 5th. Even worse, 70% coffee returned due to low quality in markets in London is from Viet Nam. Therefore, Vietnamese SME have not built their own powerful brands and have not built up their image and competitiveness in regional and global markets.

161. Barriers to accessing resources like capital and production premises prevent SME from investment in technological innovation to improve product quality and productivity. Currently, most Viet Nam SME are using outdated technology with low productivity.

Barriers to accessing support policies

162. Obviously, the constraints mentioned above have destabilized operation of SME, affecting negatively enterprises' competitiveness and the competitiveness of their products. The Government has intervened by issuing a number of support policies which have shown their positive effect. However, the lack of consistency and specificity in implement in these policies has made the Government's practical support inaccessible to some enterprises.

163. A legal framework regulating SME' operation is being developed, which creates overlapping regulations or modifications, causing the lack of enforceability and transparency and making it hard to understand and applying the regulations. At the same time, assisting SME development in Viet Nam is a new field where central and local agencies are lacking of experience, SME supporting systems are fledgling and still without any business development services. As a result, SME development has faced a lot of difficulties.

164. In addition, SME admit that support policies are inaccessible to them. Despite a lot of positive changes to SME support policies, there have been numerous limitations. For example, credit guarantee for SME is not very effective even though this form of support has been in effect for 15 years. Similarly, after one year, the implementation of support policies specified in Resolution 22 and Decree 22 of the Government are being hindered. This is because Resolution 56 does not seem to be practical and instruction documents have not been completed.

Low labor quality:

165. SME make an annual contribution of 40% to GDP and help generate employment for 50% of total laborers nationwide, and create new jobs for over 1 million laborers; most of them belong to the unskilled labor group. Unfortunately, unskilled labor is also the short-coming of SME. As most of the labor force is unqualified, the average level of wage in SME is relatively low, making it hard for SME to attract highly-qualified or skilled laborers. Therefore, SME are losing competitiveness against large enterprises. There is an urgent need for relevant authorities to deal with this issue in order to form a fair playground for SME and large enterprises⁴¹.

166. Another serious limitation of SME is limited management capacity. Even though remarkable improvement of management capacity has been made, weaknesses have not been completely eliminated. The number of SME which have qualified and experienced leaders with management skills is limited. This is because most directors or managers in the SME sector are not well-trained in business administration. The lack of training leads to the lack of vision and activeness when they manage their business. Consequently, when expanding their production, enterprises encounter a number of difficulties in personnel and financial management, leading to low productivity, poor performance, and cost ineffectiveness. Most SME do not have clear goals and long-term strategic plans to achieve those goals, but follow short-term plans, catching temporary opportunities.

Difficulty in access to financial sources

167. The biggest obstacle of SME is lack of capital. The problem of financial ability makes SME have no option but to use outdated production machinery, producing low quality and uncompetitive products.

High borrowing interest rates and restrictions on making loans prevent SME from accessing this source of finance. According to a survey of the Ministry of Planning and Investment, up to 30% SME are unable to access to banks loans; thus, just managing to survive, and another 30% have access to finance but encounters difficulties. Meanwhile, SME that have borrowings from banks and credit institutions accounting for 80-90% of capital are under strict credit control due to the cap on credit growth rate of 20% this year. The amount capital these enterprises mobilized in this year fell by half of that in the previous years. Most newly-established SME do not have enough assets to put up as collateral for loans. If they are given loans, the interest rate will be very high because they do not have chance to access

⁴¹ Viet Nam Association of Small and Medium Enterprises

preferential credit. This appears to be unequal among between SME and large enterprises when large enterprises tend to enjoy more preferential treatments, including business premises and capital. Market pressures from the global economic integration (which results in over 9,000 types of goods under tax exemption and reduction in 2011) are great concerns of Vietnamese SME.

168. Lack of funds in addition to high capital expenditures has both brought about positive and negative effects on Vietnamese enterprises. In the short-term, it is a challenge to business activities, but in the long-term, it will become a “driving force” that urges enterprises to carefully prepare strategic plans on capital restructuring to ensure effective use of funds and good performance and step by step eliminate speculation.

CHAPTER IV- PROSPECTS FOR THE SME SECTOR

Direction for SME development

169. The report has highlighted the role of SME in economic development, poverty reduction and hunger elimination of Viet Nam. The SME sector has made remarkable contribution in mobilizing the resources needed for development investment, production, employment creation, unemployment reduction, and poverty reduction and hunger elimination to promote socio-economic development.

170. SME see opportunities to develop as well as a favorable economic environment and challenges in the coming period.

171. Thanks to economic achievements, Viet Nam has reached the middle-income country (MIC) status, which is an important prerequisite for future development. Efforts of the Vietnamese Government in administrative reforms have created favorable conditions for Vietnamese enterprises. Despite achievements in improving the business environment, there are short-comings that negatively affect operation of enterprises, especially SME – the group lacking competitiveness and access to markets. Some key short-comings are (i) poor infrastructure to support SME, (ii) low national competitiveness, (iii) limited qualified human resources (government's officials, corporate leaders, the labor force, etc), (iv) serious consequences of natural disasters and climate change, and (v) problems in macroeconomic management (high bank interest rates, sometimes up to 20% per annum, trade deficits, increasing budget overspending, unequal opportunities of accessing resources, etc).

172. Outside the country, the world's economy show signs of recovery after the global economic crisis but still contains potential instabilities. Fluctuations in energy and raw material prices are unpredictable, causing difficulties for economies dependent on imported input materials like Viet Nam. Furthermore, the world has seen a decline in the role of large economies like the US, the European Union, Japanese and an increase in the role of emerging countries (BRIC) and developing countries. Under the context, Viet Nam has a valuable opportunity to take part in regional and global production.

173. SME need the support from the Government, relevant authorities, and the community to develop further and improve competitiveness. Support from outside is not enough, SME also have to make best efforts in innovating enterprise management to stand firm in an environment of severe competition, especially when Viet Nam is further and further integrating into the global economy. In order to grasp these opportunities, enterprises need restructuring to improve productivity, creating a firm base for sustainable development in the long term when integrating into the global economy. Vietnamese SME should take advantage of support policies from central and local authorities to improve performance.

174. Below are several directions for SME development:

- ❖ SME are on a trend of tremendous development in both quantity and quality, playing an indispensable part in the economy;
- ❖ Further global economic integration requires greater cooperation among Vietnamese SME, between domestic and foreign enterprises in order to establish supporting industries.
- ❖ In order to restructure the economy, improve SME's competitiveness, increase the employment rate, and generate income, SME development should be selective, which means only competent enterprises can survive and develop. There will be more

sources of funds for enterprises. Enterprises can obtain capital not only from acquaintances or personal savings but also from banks, investment funds, credit unions, foreign sources of investment, and ODA.

- ❖ Currently, the rate of business registration is still high and on an increasing trend because of the economy's flexibility and administrative reforms. However, the official number of enterprises in real operation (paying tax) is much lower. This is a thorny problem not only for enterprises but also for the Government, which needs careful supervision, control and timely support from the Government.
- ❖ Public-Private Partnerships (PPP) is on an increasing trend, which is an opportunity for SME to cooperate in public investment projects.

Some policies expected to have effects on the SME sector

175. The economic transformation from the centrally-managed economy to the socialist-oriented market economy requires the Government to remove its direct interventions on business operations and have indirect influence on business operations by more appropriate measures.

Of those measures, the improvement of the legal framework to regulate the market economy and meet requirements of global economic integration is of great importance. It is planned that in the Law Building Program 2012 and adjustments of The Law Building Program 2011, there will be several changes to the existing regulations and issuance of new laws that will have certain effect on the SME sector:

176. **Price Control Law:** The Price control law is being drafted in order to create a fair competition environment, a transparent legal environment, and a legal framework that fit the socialist-oriented market economy. According to the Price control law, price control is decentralized to avoid overlaps of responsibilities of the government and the market, the central and local authorities, the local authorities and enterprises. Nevertheless, it is important to ensure appropriate price control in accordance with international laws and practices that Viet Nam commits to follow so that Viet Nam will be recognized as a market economy by the international community.

177. **Amendments to the Law on Taxation:** the Ministry of Finance is making several amendments to some articles in the Law on Taxation with a view to reform administrative procedures create favorable conditions for enterprises and improve the economy's competitiveness. The amendments focus on the contractor tax regime to ensure equity among tax payers. Lump sum tax rates are to be fixed so that investors get more information on taxes before they tender for any contract. To prevent transfer pricing, the Law on Taxation requires that tax agencies will have an examination to set an appropriate tax rate, then discuss with the investors before applying that rate. Once the tax agency gives an overall tax rate, the tax rate will be applied during the enterprise's operating period.

178. **Law on Cooperatives (amended):** The purpose of amendment of the Law on Cooperatives is to encourage and create favorable conditions for cooperative development, and direct cooperatives' operation into the frame of their original features. The amendment is also aimed at ensuring interests of various agricultural households, consumers, individual businesses, enterprises, especially SME, and other organizations.

179. **Amendments of the Law on Personal Income Tax:** More tax agencies will be established to define objects of taxation. Several new tax calculation methods are added, making tax calculations for each type of income simpler in accordance with the international

practices. Tax rates for incomes of the same types are fixed, ensuring fair tax treatments of natural persons and legal entities.

180. **Amendments of the Law on Corporate Income Tax:** Several regulations are added to embrace new economic activities arising in the market economy on the trend of integration (multi-level sales, electronic commerce, “thin capitalization” when identifying interest expenses; price arrangement between associated enterprises) and to make the Law more in accordance with international practices. Tax rates will be adjusted more appropriate to encourage individuals to earn profits legally.

181. Other laws include the Law on Public Investment, the Labor Code (revised), the Trade Union Law (revised), the Money Laundering Prevention Act, and the Advertisement Law.

CONCLUSION

182. The biggest global economic recession in a decade has taken a heavy toll on Viet Nam's SME sector. However, timely support from the Government and the great effort of each enterprise helped to alleviate the adverse effects of the crisis. The Viet Nam economy suffered a slowdown but did not fall into recession, as GDP growth reached 5.32% in 2009.

183. Besides recent efforts of the Government, various authorities and the enterprise community itself, there remain constraints that need to be resolved so as to improve the environment for SME. These relate to start-up, and enhancing their strength and subsequent growth in the coming years. Much focused effort is needed to enhance the capability and opportunities for SME to learn and better compete.

184. The global economic downturn has caused numerous obstacles to SME, and especially for export driven SME. However, this also creates a chance for SME to challenge their capabilities, and take advantage of more abundant human resources, in an attempt to achieve high and sustainable growth.

185. On the Government side, 2010 is expected to mark a new period in the progress of SME development. Decree 56/2009/ND-CP on support for SME development has been promulgated to replace Decree 90/2001/ND-CP. The Agency for Enterprise Development, Ministry of Planning and Investment, is preparing a report on the implementation of the SME Development Plan 2006-2010. Improvements in the legal framework will facilitate the development of SME.

186. Together with the effort of ministries and donor support, the SME sector in Viet Nam will develop, not only in terms of quantity, but also in quality and competitiveness, in the context of WTO membership. As the development of the SME sector requires the cooperation of various Government bodies and all stakeholders, the Ministry of Planning and Investment will seek to fulfill its coordinating and catalytic role in a bid to create a favorable environment for Vietnamese SME.

187. Ministry of Planning and Investment is grateful for all the support and inputs received thus far, and which aim to create a more favorable environment for SME. Further, we look forward to working with all stakeholders in the future to create an increasingly robust and dynamic SME sector in Viet Nam.